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EXPORTS OF GOLD FROM INDIA: AN ANALYSIS OF THE GOVERNMENT'S CURRENCY POLICY

BY

B. R. SHENOY,

Professor of Economics, Rajaram College, Kolhapur.

I

On the morning of September 21, 1931 (8-30 A.M.)[1] the Government of India received information from the Secretary of State that His Majesty's Government in England had decided to suspend the gold standard[2] and perhaps the *communiqué* also contained instructions to take measures for abandoning the standard in India as well. Forthwith the Governor-General by Ordinance[3] suspended (before 10 A.M.)[4] Section 5[5] of the Indian

1 Sir George Schuster's speech in the Legislative Assembly on Sept. 26, 1931. See Assembly Debates, Vol. 14, 1931, p. 1089.

2 Report of the Controller of Currency, 1931-32, p. 11.

3 See Ordinance VI, 1931 (Gazette of India Extraordinary, Sept. 21, 1931).

4 Sir George Schuster's speech loc. cit.

5 Section 5 of the Act lays down: "For the purpose of determining the equivalent rate applicable to the sale of sterling under this section, twenty-one rupees three annas and ten pies shall be deemed to be equivalent to such sum in sterling as is required to purchase one tola of fine gold in London *at the rate at which the Bank of England is bound by law to give sterling in exchange for gold* after deduction therefrom of an amount representing the normal cost per tola of transferring gold bullion in bulk from Bombay to London including interest on its value during transit."

Currency Act, 1927. The Gold Standard Amendment Act in England, suspending Sub-Section 2, of Section 1, of the Gold Standard Act, 1925, which made it obligatory on the part of the Bank of England to sell gold at a fixed rate specified therein, however, could not pass through all its legislative stages until late in the evening that day (about 11 P.M.).[6] Thus, legally the rupee went off the gold standard even earlier than sterling to keep waiting for the arrival of its master.

The suspension of Section 5 of the Currency Act in India, however, was unnecessary if the object in view was merely the suspension of the gold standard, and perhaps it was done in a state of panic.[7] For, consistently with the supposedly offending section remaining in force the rupee could have been redeemed, without violating the law in 18d. sterling instead of in 18d. gold (8·47512 grains of fine gold) or equivalent sterling, as indeed it was so redeemed later: the section merely laid down that the rate of delivery of sterling for rupees by the currency authority was to be determined with reference to the Bank of England's legal buying rate for gold. This rate being fixed, whatever the market price of gold in London the currency authority in India would have been perfectly within the limits of law, in redeeming the rupee on the basis of a par rate of 18d. sterling, whether or not sterling was on gold. When this was realised by the Government, or so it would seem, the ill-merited suspension of the section was set aside by another Ordinance[8] on September 24, 1931.

Thus on the 24th September, the Currency Act, 1927, came back into force[9] continuing the link of the rupee with sterling. The rupee, therefore, automatically went off the gold standard with sterling. Subsequently there arose an almost unceasing export of gold from the country at even a faster rate than the output of the mines of South Africa, and is still continuing although the rate of flow has slowed down somewhat. The total of these exports by the first week of January, 1935, came to 27½ million fine ounces[10] valued at about Rs. 220 crores. This has

6 Hansard, Vol. 256, 1931, p. 1412.

7 The Government had only 90 minutes before them to decide what steps to take. See Sir George Schuster's speech loc. cit.

8 Ordinance VII, 1931.

9 But some restrictions were placed by Ordinance VII, 1931, on the sale of sterling by the currency authority. See p. 15 below.

10 See the reply of Sir James Grigg to a question put by Mr. Mohanlal Saxena, M.L.A., in the Legislative Assembly. Assembly Debates, 11th February, 1931.

given rise to much discussion in the country. On the one hand the Government emphatically asserts that the free and unrestricted outflow of gold is in the best interests of India. In his budget speech of March, 1932, Sir George Schuster, for instance, observed: ". . . we are absolutely certain that in the present circumstances the best interests of India are being served by allowing free movement of gold to continue . . . ." It is being maintained equally strongly by the public generally, on the other hand, that the exports of gold are in the highest degree injurious to the people and that Government should take measures to prevent the outflow and buy the gold themselves. The Federation of the Indian Chambers of Commerce and Industry gave crystallised expression to this view when they resolved on the 26th March, 1932:

> " (*a*) The Federation views with grave concern the continuous and heavy export of gold from India . . . . and strongly urges upon the Government of India the desirability of placing an immediate embargo on the export of gold from India as such a heavy and continuous drain of the precious metal will seriously endanger India's future monetary reconstruction.
>
> (*b*) The Federation further urges on Government the necessity of purchasing gold in the open market at a price fixed on the basis of day-to-day ruling rate . . . ."

As always, this discussion has resulted, exceptions apart, in some confused thinking[10a] In this paper we shall make an attempt to see if it is possible to clear the issues involved but shall confine ourselves only to the more important among them. First, how are the exports of gold related to the continuance of the rupee-sterling link at 18d. sterling a rupee? Second, if the rupee had not been linked to sterling would the gold value of the rupee have been above or below that of 18d. sterling, *i.e.*, would the sterling value of the rupee have been above or below 18d.? Third, in the light of the answer to the second question what would have been the best policy to adopt in the interests of the country? Having done with these questions we shall examine the policy actually followed by the Government. Before coming

[10a] For a good sample of this see an article entitled "Gold Export Fallacies" by B. P. Adarkar in the *Servant of India*, dated the 21st March, 1935.

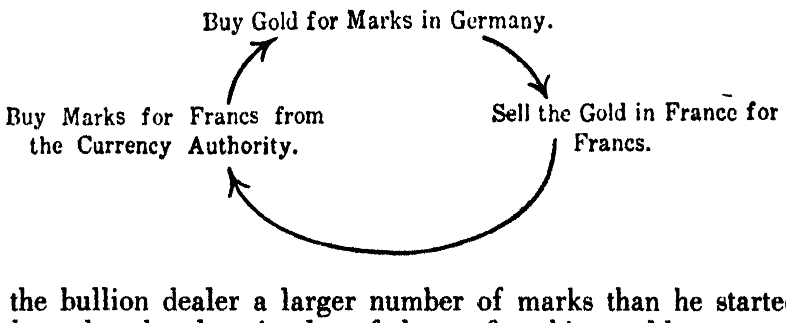
to these problems, however, we shall first indulge in certain preliminaries.

II

1. When two unstable currencies are linked to one another at fixed ratio they must necessarily tend to rise or fall together in terms of gold, provided always the movement of gold as between the two countries both ways is subject to no restrictions whatever. That is to say, if the mark, for instance, were linked to the franc at a par rate of 5 francs to a mark by the familiar device of buying and selling francs at rates based before the par rate, then, Rm. 1 and frs. 5 should command in the market the same number of grains of fine gold. For, if they did not, the export or import of gold, as the case may be, as between France and Germany would bring about the assimilation of the gold values of the two currencies.

If for instance the gold value of the mark should happen to be higher than that of five francs, that is to say, if the mark price of gold is found to be lower than the franc price converted into marks at the mark-franc market rate then, gold will flow from Germany to France to realise the difference between the two prices. This will give rise to a Circle of Exchanges which for convenience of reference later we may call Circle of Exchanges No. 1 : gold will be bought in Germany for marks exported to France and sold for francs and francs converted into marks at the currency authority. This operation would yield

Circle of Exchanges No. 1.



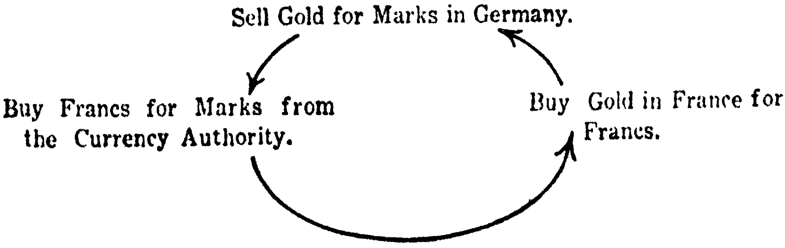
to the bullion dealer a larger number of marks than he started with, and under the stimulus of the profits, this would represent the process would continue as fast as gold can move until equilibrium will have been reached: the mark price of gold will rise in Germany as a result of the increased demand till it corresponds to the franc price in France. Or if inflation be not in

progress in France correspondence in the two prices would be brought about in part by a fall in the franc price. During the process of equilibration the mark exchanges would be at the 'upper franc point' owing to the increased demand for marks and until equilibrium will have been reached expansion of currency in Germany would continue.

The length of the period of transition, however, would depend upon whether the franc is comparatively stable or depreciating in value. In the latter event the pull on the gold from Germany would be the stronger, and equilibrium may never perhaps be reached. In any case, when equilibrium will have been reached, it will have brought about a partial fall in the gold value of the mark. Simultaneously, it will also have been responsible for either preventing a further or faster depreciation of the franc, or for raising it in value if it was stationary.

In like manner in the reverse situation also, namely, of the mark having a lower gold value than francs, exports of gold would result but this time from France to Germany giving rise to a Circle of Exchanges which may be called Circle of Exchanges No. 2: ultimately, the franc price of gold will have risen causing expansion of currency in France and a partial loss in the gold value of the franc which will have either prevented a further or faster depreciation of the mark or will have raised it in value. During the period of transition franc-mark exchanges would be at the 'lower franc point.' Also, as in the first case in the event of the mark continuously depreciating a state of equilibrium may never perhaps be reached. It will be noticed

Circle of Exchanges No. 2.



that while the Circle of Exchanges No. 1 moves in the clockwise direction the Circle of Exchanges No. 2 moves in the anti-clockwise direction.

For the purposes of bringing about the equilibrium it is not necessary that gold should actually be landed either in France or Germany as the case may be. The importing country may, if necessary, direct it to any other part of the world without injury to the operation of the circle of exchanges.

2. In actual practice, however, some difference in the gold values of the two currencies owing to expenses incidental to transporting gold and the fluctuations in the exchanges between the upper and the lower franc points is possible without causing any movement of gold between the two countries. For instance, if $(5+\alpha)$ francs be the upper limit of the mark and $(5-\beta)$ francs the lower limit and x_1, frs. the cost of transporting gold worth 5 francs from France to Germany, then, gold will not be imported into Germany until the value of the mark is lower than the value of the francs by more than the gold value of $(x_1+\beta)$ francs. Similarly, gold will not be exported from Germany to France until the gold value of the mark is above that of 5 francs by more than the gold value of $(x_1'+\alpha)$ francs, where x_1' represents the expenses of transporting one mark worth of gold from Germany to France.

That is to say, if the gold value of a mark be 'a' grains of fine gold and the gold value of 5 francs be 'b' grains of fine gold then if a < b, no gold will be exported from Germany to France until (a—b) > or at least = the gold value of $(x'_1+\alpha)$ francs. Similarly, if b > a, no gold will be exported from France to Germany until (b—a) > or at least = the gold value of $(x_1+\beta)$ francs. But once these limits will have been reached or passed movements of gold will take place, which will tend to keep the difference in the values of a and b to within these limits.

These limits for the sake of convenience may be termed 'gold limits' and should be distinguished from 'gold points' in the case of currencies on gold and the upper-and the lower-exchange points in the case of currencies on exchange standards, *e.g.*, the upper sterling-and the lower sterling-points of the rupee. Gold limits differ from gold points, inasmuch as the gold values of the currencies concerned do not lie between them as in the case of gold points; they determine merely the limits of the difference in the gold values of the two currencies before the movements of gold would take place; x_1 and x'_1 not being fixed quantities, the gold limits are not fixed limits as well; also, the difference between the limits does not depend merely upon the cost of transport of gold, and other incidental expenses as in the case of gold points but in addition, on the difference between the upper-and the lower-exchange

points; gold limits and gold points, however, have one point in common, namely, that in both the cases they mark the points at which movements of gold would take place as between the two countries.

3. The converse of the above proposition also holds true *i.e.*, if on linking two unstable currencies to one another at a fixed ratio gold suddenly begins to flow from one to the other and continues to do so in the same direction then, this is an indication of the currency of the country from which the exports of gold take place having been undervalued by the currency authority in terms of gold. That is to say, continuing the example of France and Germany that we have chosen, if on linking the mark to the franc, say on September 24, 1931, both the currencies having gone off the gold standard three days earlier, gold suddenly begins to flow out of Germany in exchange for francs, this is a sure indication that the mark is undervalued by the currency authority, the Reichsbank and that the difference in the gold values of the mark and the francs is greater than the gold values of $(x'_1 + a)$ frs. For, but for this being the case it would not be profitable to export gold from Germany to France and bullion dealers be they French or German, do not get busy for nothing.

They are an indication in other words that the franc price of gold when converted into marks at the market rate is higher than the mark price by more than the difference appropriate to the corresponding gold limit and has remained so all the time exports have been taking place. The state of the franc-mark exchanges would give further evidence, if that were needed, of the undervaluation of the mark. So long as this undervaluation lasts the mark exchanges would be above par and at or near to, the upper franc point $(5 + a)$: it would be prevented from rising above this by the operation of the mechanism of the exchange standards which require the currency authority to buy exchanges at the upper exchange point.

If on the contrary gold suddenly begins to flow from France to Germany, this is an indication of the mark being overvalued by the currency authority a further clue from which will be found in the mark-franc exchanges which would be at the lower franc point; the mark would be prevented from falling below this limit by the obligation of the currency authority to sell exchanges at this point.

4. The chain of events outlined above presumes that the movements of gold as between the two countries in both the directions, as also the two-sided convertibility of marks and francs are subject to no restrictions whatever. If for instance,

marks having a lower gold value than francs, restrictions are placed on the sale of franc exchange or the import of gold into Germany is prohibited or rendered impossible by not making available franc exchange for such imports, then, if these restrictions are enforced with rigour whatever the depreciation of the mark gold will not flow from France to Germany.

This will interfere with the anti-clockwise movement of the Circle of Exchanges No. 2 and the forces that would have lowered the value of the francs to the level of the mark would not be allowed to function freely.

The market rate of exchange already near about the lower franc point will fall below it owing to the currency authority not fully meeting the demand for exchange, that is to say, owing to the demand for exchange being greater than the supply. There will thus result a disparity between the market rate of exchange and the official rate of exchange. By the extent of the margin between the two, the currency authority in Germany will be suffering losses every time it sells franc exchange for the mark. Supposing the market rate of exchange to be $(5-\gamma)$ frs. per mark, and the official rate $(5-\beta)$ frs. then the loss on every mark worth of exchanges sold would be $(\gamma-\beta)$ frs. This loss of the currency authority, however, will be the gain of the favoured exchange dealers, in the first instance, to whom the currency authority may ration out exchange, and if they are forced to pass it on to their customers, it will be the gain of the importers. But sooner or later—and the sooner it does so the better would it be to itself and to the country generally—owing to the losses it would suffer the currency authority would be compelled to abandon the link of the mark to the franc or as it would be more appropriate to say, perhaps, give up the show of maintaining the link. For, to all practical purposes the link can be said to have snapped when the market rate of exchange persisted below the lower franc point.

But under the circumstances should the mark have a higher gold value than francs there being no restrictions upon the clockwise movement of the Circle of Exchanges No. 1 the forces which bring about an equilibrium between the two gold values will have free and full play. That is to say, gold will flow from Germany to France and the mark will have the franc saddled on it. In carrying the burden of the franc on its shoulders, however, the mark will be dragged down in gold value.

Such an arrangement would be ideal for France especially if on the 21st September, 1931, her advisers were in doubt as to whether it was the mark or the franc that was to have a higher

gold value, supposing her interests lay in assembling all the available forces for preventing a depreciation of the franc as far as possible. By providing for interfering with the anti-clockwise movement of the Circle of Exchanges No. 2 she can see to it that the mark does not hang on the franc weighing down its value, but if the Circle of Exchanges should move in the clockwise direction the mark having a higher gold value than francs, it will be compelled to take on its shoulders the franc. Thus whether it be heads or tails France will have it.

Perhaps there will be opposition from Germany when the ignorant and hard-up peasantry and middle-classes of that country begin selling gold and her bullion-dealers export that gold getting in return only depreciating franc securities (in terms of gold). But if the French Secretary of State, unofficially guided by the advice of the Governor of the Bank of France, were to be responsible for the German currency and exchange policy, it is always open for him to say that the steps taken are in the best interests of Germany. He or his spokesmen in Berlin could then point out that the franc securities which Germany is getting for her gold yield interest while gold yields none; that German credit has improved in the world market as a consequence of the gold exports; that she has been able to pay off her foreign obligations, thereby saving interest charges on them; that the sellers of gold are making profits in terms of marks and that it would be unfair to interfere with their liberties in this respect; and so on. The camouflage would be complete if the Prime Minister of France reiterates a past announcement of his in the Chamber of Deputies that the Government of France is determined to stand behind the credit of Germany. The French Press in Germany would echo these arguments and help in creating a smoke-screen over the real guiding factor, namely, that German gold was necessary for supporting the franc and meeting France's gold obligations.

In like manner if the purchase of franc exchange by the currency authority or the import of gold into France were subject to restrictions similar to that in the first case then if a > b the mark would be able to leave behind the depreciating franc, while if b > a, the franc would be compelled to lift the burden of the mark. In the former event mark-franc exchange rate in the market already at or near to the upper sterling point will rise above it and there will result a disparity between the market rate of exchange and the official rate. To the extent of the margin between the two, the currency authority will be suffering losses every time it sold marks for franc exchange. Supposing

the market rate of exchange to be $(5+\delta)$frs. and the official rate $(5+\alpha)$frs. then the loss onevery mark worth of exchanges bought would be $(\delta-\alpha)$ frs. This loss, however, would be the gain of exporters, if the dealers in foreign exchanges were compelled to pass it on to them. But sooner or later the currency authority will be compelled to abandon the link of the mark to the franc. But in the event of $b > a$ the mark will force itself upon the franc and the latter will lose a part of its gold value.

This arrangement would be ideal for Germany, if the interests of the country demand a prevention of the depreciation of the mark. But the enforcement of it upon France would depend upon whether Germany is responsible for the currency and exchange policy of France. For, otherwise France cannot be a willing partner to a game which involves a drain of the hoardings of her people in return for depreciating mark paper while at the same time lowering the gold value of her currency. If the salvation of France were to lie in depreciating her currency there are better ways of doing it than by exchanging gold for mark paper, while at the same time keeping within the country the profits of gold appreciation.

The policy of linking two unable currencies to one another at a fixed ratio is objectionable on fundamental grounds. Since it involves the instability of two currencies it is extremely unlikely that in practice the difference in their gold values would fall within the gold limits. If occasionally should it so happen for the simple reason of their instability it would be more the result of accident rather than design. More often than not that difference would fall outside the gold limits and would generate a series of disturbing forces over which the currency authority, of the country whose currency happens to be undervalued, will have no control.

If the difference between the gold values of the currencies is wider than the appropriate gold limit, as one can confidently expect that it would be, then, the country whose currency is undervalued would experience three important phenomena: gold exports, expansion of currency, and depreciation in that order. If the mark for instance has a higher gold value than the franc Germany will experience exports of gold, expansion of currency and depreciation.

5. In respect of the exports of gold Germany would be a loser. Consistently with the exchange value of the mark, the mark price of gold will not have risen sufficiently high during the time exports of gold take place. That is to say, the seller of gold even when he parts with it would be getting fewer marks

than he should.[11] The loss he would thus be making would be wholly due to the undervaluation of the mark incidental to its being linked to the franc. The link prevents the free adjustment of the mark exchanges and acts as a powerful lever for drawing out gold from the womb of German hoards by the delusion of a higher mark price than was available when the mark was on gold. Indeed this loss is inevitable so long as the mark is chained to the franc and the only way of avoiding the loss is to break the chain or to cause the breaking of it by imposing an embargo on the exports of gold.

If the downward movement of the franc continues the loss to the sellers of gold would be the greater. For, the price of gold would rise every time the franc falls in value and the appreciation in the value of gold will have slipped out of the hands of the sellers. The loss of the sellers would be the gain of the bullion dealers and of the speculators in gold.

The exports of gold would be converted into francs and the francs offered to the currency authority in exchange for marks. In place of gold gone out of the country, therefore, there would now be franc paper in the strong rooms of the Reichsbank. This franc paper would depreciate in gold value with every fall in the franc exchange in term of gold

11 This is a simple arithmetical proposition and can be worked out algebraically thus :—

Suppose the franc price of an ounce of fine gold $= x$ frs

And the mark price of the same quantity of gold $= x'$ marks.

Now, 1 mark $= 5$ frs.

∴ The mark price of gold expressed in francs $= 5x'$ frs.

Since gold would be flowing from Germany to France and would be sold at a profit $x > 5x'$.

Also the gold value of one franc $= \frac{480}{x}$ grs.

And the gold value of one mark $= \frac{480}{x} \times 5$ grs.

For an ounce of fine gold, therefore, the German sellers should get in marks $= \frac{x}{5}$

Actually, however, they would be getting only x' marks.

Since $\frac{x}{5} > x'$, the German sellers would therefore be making a loss represented by $\frac{x}{5} - x'$ marks on every ounce of gold sold, *i.e.*, they would not be getting as much in marks for their gold as they should consistently with the exchange value of the mark.

currencies. In the meantime gold will have appreciated in value. Thus by linking the mark to the franc Germany would be forced to exchange a progressively appreciating commodity gold, for a progressively depreciating commodity franc paper. Germany would therefore be not merely deprived of the profits resulting from the appreciation of gold but will be compelled to suffer the losses resulting from the depreciation of the franc paper. All this time, however, the French spokesmen in Berlin, the French Press in Germany and one or two German teachers of economics the even balance and stability of whose minds are unruffled by political considerations would be singing the praises of interest yielding franc securities!

No doubt a part of the franc paper would be made use of for paying Home Charges, if Germany be habituated to make any such payments to France, and another part for redeeming German franc debts, maturing, say, on the 1st January, 1932. But these payments could as well be made on the due date even if gold were bought by the Reichsbank instead of francs, by selling gold on that date. From the date of buying gold until the date of payment, the currency authority would not then lose the appreciation in the value of gold nor suffer the loss on the franc paper. Also, if Germany was a traditional franc exchange standard country, on September 21, 1931, there would have been in the reserves a large volume of franc securities. These could have been made use of to the last franc before selling gold.

From the point of view of Germany the exports of gold would be as good as spilt. They would not have the normal effect on the German exchanges. For, the link of the mark to the franc would prevent the exports of gold from raising exchanges above the upper franc point $(5+a)$. In terms of gold currencies the value of the mark apart from being raised by the outflow of gold, would fall, ironically enough as a consequence of the exports. They would be spilt in the altogether purposeless attempt of bringing the difference in the gold values of the two currencies to within their gold limits.

In the process the mark-franc link will have forced upon the country a policy of currency expansion whether or not this is to the benefit of the country. Consistently with the maintenance of the link the Reichsbank will be unable to neutralise the inflationary issue of currency. Any attempts in the direction can only lead to a corresponding additional stimulus to the exports of gold. Even supposing a certain measure of inflation is beneficial to the German body economic,

say to neutralise the evil effects of deflation indulged into during the years preceding the abandonment of gold, the measure of inflation consequent upon the continuance of the link with the franc, would not be in consonance with the requirements of the situation, but would be determined wholly by the nature and degree of fluctuation of the franc or the extent of the difference between the magnitudes of a and b! Also the inflation that would thus be thrust upon Germany would not be under the control of the Reichsbank but would depend upon the forces that determine the fate of the franc. Even apart from the general objections to inflation as such, a policy which lands Germany in an altogether unplanned inflation of this sort is possible only when the French Government has control over the German currency policy.

Inflation would bring about currency depreciation which would be real none the less because the mark exchanges would be at the upper franc point. The depreciation would be visible in and would be determined by the franc exchanges in terms of gold currencies. As in the case of inflation the extent of the depreciation would be determined not with reference to the requirements of the country's foreign trade, but by the state of the franc.

Thus the linking of two unstable currencies to one another at a fixed ratio leads to exports of gold involving heavy losses both to the sellers of gold and to the currency authority, and lands the country in an erratic measure of currency expansion, and unplanned depreciation. Under the circumstances, therefore, the best policy would be to abandon the link. Having thus acquired freedom of action the country could then follow what course suited best her requirements. Inflation and depreciation could then be indulged into, if that was found to be the right thing to do to heart's content. If inflation inspired a flight from the currency and gold tended to flow out of the country, it would be desirable to prohibit the exports of gold, and for the Government to buy the gold.

The buying of gold by the Government would be an easy method of causing inflation. It would keep within the country the fruits of gold appreciation, which otherwise would fall on the lap of the bullion dealers or speculators in gold. These profits are in the nature of unearned increment, and it is only proper that they should go to relieve the burden on the general taxpayer. Once the Government knows its own mind about the extent of the depreciation to be effected the element of risk involved in such a course is reduced to a minimum.

6. For convenience of reference later we can now bring together some of the conclusions of the above analysis.

(1) When two unstable currencies are linked to one another at a fixed ratio they must necessarily tend to rise or fall together in terms of gold.

(2) If the difference between the gold values of the two currencies is wider than the gold limits, then gold will flow from the country whose currency is undervalued to the other. The exports of gold will continue until the difference in the gold values comes to within the gold limit.

(3) Conversely, if on linking two unstable currencies to one another at a fixed rate gold suddenly begins to flow out of one to the other, and continues to do so, this is an indication of the gold exporting country having its currency undervalued, in terms of gold.

A further evidence of this would be that, if the undervalued currency, for instance, be the mark, the mark-franc exchange rate would be above par and at the upper franc point.

(4) (*a*) The above propositions presume that the movement of gold and the two-sided convertibility of the currencies is subject to no restrictions whatever. If for instance, limitations are put upon the sale of franc-exchange by the currency authority or the import of gold into Germany prohibited or made impossible by not making available franc exchange for the purpose, in the event of a being $<$ b, the mark will have no choice but to shoulder the burden of the franc. But the franc will then be free to leave behind the mark if the latter depreciated more than the former. In the latter case a difference will appear in the market rate of exchange and the official rate, which will lead to the abandonment of the link. This arrangement would be ideal for France if her interests lay in preventing the depreciation of the franc.

(*b*) If on the other hand the restrictions are placed on the buying of exchange by the currency authority and on the import of gold into France, while the mark would be free to leave behind a depreciating franc, the franc will not be free to do so in the event of b being $<$ a. In the former case a difference will appear in the market rate of exchange and the official rate, which will lead to the abandonment of the link. This arrangement would be ideal for Germany.

(5) The policy of linking two unstable currencies to one another at a fixed ratio is fundamentally objectionable. For, it leads to exports of gold from the country whose currency is undervalued, expansion of currency and depreciation. The

link inevitably involves losses on the exports of gold, and the inflation and depreciation caused by it are without a plan and beyond the control of the country concerned.

(6) Under the circumstances the best policy for the Government to adopt would be to abandon the link, impose an embargo on the exports of gold and to buy the gold.

With these conclusions in our mind we may now proceed to examine the situation in India.

III

1. By order of the Government all the banks in India were closed for three days from the 22nd September to the 25th September, 1931. This gave time to the Government to study the situation and formulate the details of policy. The decision to continue the link of the rupee to sterling, however, was already taken by the Secretary of State on the 21st itself and a few hours after the suspension of Section 5 of the Indian Currency Act he communicated this decision to the Federal Structure Sub-Committee of the Round Table Conference, on that day.

On the 24th September it was perhaps still not clear to the authorities whether it was the rupee or sterling that was to have a higher gold value. Adequate measures, however, were forged to meet all contingencies. These were issued in the form of an Ordinance[12] on the evening of that day.

This Ordinance restricted the sale of sterling by the Government. It provided that sterling would be made available for the following purposes only:—

(1) Normal trade requirements *but not for the import of gold or silver coin or bullion . . . .*;

(2) for contract completed before 21st September, 1931;

and (3) for reasonable personal and domestic purposes.

Certain Rules were framed under the Ordinance which empowered a Managing Governor of the Imperial Bank to call upon any recognised bank[13] to satisfy him that it had not been selling foreign exchange for any purpose other than those specified in the Rules and that it had sold all its purchases of foreign exchange before asking for more. He could also suspend for seven days the recognition of a bank for not satisfying him in these respects pending action by the Government.[14]

12 Ordinance VII, 1931, Gazette of India Extraordinary, September 24, 1931.

13 The Ordinance gave the names of 24 Exchange Banks as recognised banks which included the Central Bank of India and the Bank of Baroda.

14 *Ibid.*

2. Thus the Ordinance of September 24, linked to one another two unstable currencies at a fixed ratio. Exports of gold from India were not prohibited nor were any other restrictions imposed upon them. But the imports of gold into India should they seek an entrance in the event of the rupee being overvalued were made impossible by the provision that exchange would not be made available for such imports. This is a unique instance in currency history, in that it restricted the imports of gold into a country, while abandoning the gold standard, while at the same time leaving the exports free and unrestricted. It affords, however, a clue to the working of the mind of the Government and their intentions. Also limitations were put on the sale of sterling by the currency authority. Thus the situation on the 24th September, clearly falls within the ambit of our conclusion 4(*a*) above.

That is to say, the measures taken by the Government ensured that if the rupee should have a higher gold value than sterling, sterling will be supported by the rupee there being no restrictions on the clockwise movement of the Circle of Exchanges[15] No. 1, while if the reverse turned out to be the case the anti-clockwise movement of the Circle of Exchanges being restricted sterling would be free to leave behind the depreciating rupee. This arrangement was ideal for England under the circumstances.

Actually, however, the former of the two alternatives came to be realised. The demand for sterling ceased after the 26th September[16] and the rupee-sterling exchange steadily began to rise until by the end of October sterling quotation reached 1s. $6\frac{1}{32}$d. Tenders for £500,000 were invited by the Government at this point and allotted at 1s. $6\frac{3}{32}$d. The weekly offer was raised by successive stages to £1 million and there was no week in which Government was not able to obtain the full amount offered for tender and effect purchases of intermediates at $\frac{1}{32}$d. above the tender rate.[17] The same situation continued up till the 31st March, 1934,[18] and thereafter.

15 The Circle of Exchanges given in Section II above (pp. 4 and 5) would hold true in the case of India if "franc" and "mark" are read as "sterling" and "rupee," and "Germany" and "France" are read as "India" and "England," respectively.

16 Report of the Controller of Currency, 1931-32, p. 12.

17 *Ibid.*, pp. 12-13.

18 Report of the Controller of Currency, 1933-34.

Exchange was thus being offered to the Government instead of the reverse for, the Circle of Exchanges was moving in the clockwise direction. It was clear that sterling was firmly saddled on the rupee and the restrictions on the anti-clockwise movement of the Circle of Exchanges were therefore removed on January 30, 1932,[19] by notification in the Gazette of India.

The exports of gold have influenced the currency situation: they have led to an excess issue of currency both coins and notes. In this respect the year 1931-32 divides itself into two parts: the period up to the end of September, 1931, and the rest of the year. During the first period currency was being returned to the Government at a rate commensurate with and even exceeding that of the previous two years. But during the latter period both notes and coins came to be absorbed on a scale which varied with the volume[20] of gold exports. For the year 1930-31 the net absorption of currency was Rs. 21·4 crores. During the previous two years, on the contrary, on balance the country had returned to the currency authority Rs. 40·5 crores and Rs. 33·0 crores worth of currency, respectively. In 1933-34 again the net absorption of currency was Rs. 13·2 crores. In effect this amounted to an expansion of currency which was commensurate with the rupee value of gold exports.

The phenomenon of the exports of gold on a large scale after September, 1931, shows that by fixing the exchange value of the rupee at 18d. sterling the rupee has been undervalued by the Government.[21] That is to say, if on September 21, 1931, the rupee were delinked from sterling it would have shown a higher gold value than sterling, *i.e.*, the rupee-sterling exchanges would have been above 18d. sterling. This conclusion is strengthened by the state of the rupee sterling[22] exchanges.

The exchange value of the rupee, barring short periods, for practically the whole of the period following September, 1931, was above par and at the upper sterling point. Indeed, in view

19 Report of the Controller of Currency, 1931-32, p. 12.

20 In this connection the following remarks of the Controller of Currency are of interest: "... The year was divided into two clearly marked periods, the first up to the end of September when as a result of falling prices the return of currency continued on a scale commensurate with, and even exceeding, that of the previous two years. During this time currency was contracted to the extent of 26,87 lakhs. In the latter half of the year with the abandonment of gold standard prices showed a tendency to rise and the finance of India's gold exports necessitated currency expansion on a large scale . . ." Report, 1931-32, p. 16.

21 See conclusion 3 above, p. 14.

22 See p. 7 above.

of the fact that intermediates were sold at $\frac{1}{32}$d. above the weekly tender rates, even when these were 1s. 6$\frac{3}{32}$d. during periods when such sales were made the rupee in effect can be said to have risen above the upper sterling point. There have even been several occasions when owing to severe falls in the cross-rate sterling exchange has shot up to 18 $\frac{5}{32}$d.

If from the middle of October to the end of November the rupee was weak it was due to certain temporary disturbing factors which led to speculation for a fall. The widespread campaign by the Currency League for the devaluation of the rupee below 16d., coincided with the discussions on the Reserve Bank Bill in the Legislative Assembly and speculators probably had entertained the hope that by amendments to the Bill there was a chance of providing for the devaluation of the rupee. They had, therefore, made extensive forward purchases of exchange. The banks were thus unwilling sellers except at low rates and exchange fell gradually to 1s. 5$\frac{13}{16}$d. This situation, however, righted itself immediately the Government made it clear that they were not willing to accept amendments to the Bill which would alter the ratio.[23] By 28th December exchange was firm again and above par.

IV

1. When England suspended the gold standard, the Government of India had before it three possible alternatives of policy: (1) to continue the link of the rupee to sterling at the existing ratio or a different one; (2) to abandon the link and allow the rupee to find its own level; and (3) to link the rupee to gold at a convenient parity.

In view of the inadequate stock of gold in the reserves[24] the last of these alternatives was not practical finance at any rate immediately. Also, it would have been extremely difficult to make the right choice of gold parity for the rupee, when the currencies of the larger part of the world seemed to be on the defensive and inspired anything but confidence. At all events the fixing of the gold value of a currency unit is too complicated a problem to be decided upon in a moment of excitement and

23 Report of the Controller of Currency, 1933-34, p. 16.

24 On the 5th September, 1931, there was in the reserves gold valued at Rs. 7·2 crores, against a note circulation of Rs. 148·5 crores. This works out roughly a reserve backing of only 5 per cent.

hurry. Ruling out this alternative the Government had one of two policies to choose from.

But, in the first instance, they could not make up their mind since it was not clear what the gold value of the rupee was to be. Theirs was an attitude of sitting on the fence. While restoring the link of the rupee to sterling they restricted the sale of sterling by the currency authority and enforced a virtual embargo on the import of gold into India. Consistently with the restrictions on the sale of exchange, the rupee could not be said to have been on a *free* sterling exchange standard even as restrictions upon the sale or export of gold amount to the abandonment of a *free* gold standard. If sterling were to have a higher gold value than the rupee, these restrictions would snap the link, preventing the rupee from eking out a living at the expense of sterling. But if it turned out to be the reverse, however, the restrictions on the sale of sterling and the imports of gold would remain a dead letter and sterling would get the support of the rupee.

Actually, however, sterling fell lower than the rupee and when this was established beyond doubt by the rapidity with which the Circle of Exchanges began to move in the clockwise direction and gold flowed out of the country, on January 30, 1932, the restrictions on the sale of exchange were removed. This marked the date when the Government came down from the fence in favour of the rupee-sterling link at 18d. a rupee.

In this connection it may be mentioned that England cannot afford to view with equanimity a depreciating sterling. Practically the whole of her investments abroad, the result of the savings of the 19th century are payable in sterling; by far the larger part of her food-supply comes from overseas; and her industries have to depend upon imported raw materials. Under the circumstances she would much rather overvalue her currency than undervalue it as indeed she did at such enormous sacrifice in 1925. It was therefore essential that all the available resources should be assembled together to prevent, as far as possible, the depreciation of sterling to too low a level. The link of the rupee to sterling at the 18d. ratio acted as a brake in the downward fall of sterling. It was therefore too much to expect that the Government would forgo this relief by delinking the rupee.

2. It must be said, however, that the experts of the Government were never wanting in their attempts to defend their policy. Perhaps the ablest defence was that made by Sir George Schuster. The Finance Member in his Budget speeches of 1932 and 1933 made out certain, what at first sight appear to be very relevant

and sound points, besides certain others not exactly of that order.[25]

He argued that during the past 30 years India on balance had hoarded Rs. 700 crores worth of gold and that the amount exported was only a fraction thereof; that it would be unfair to interfere with the liberty of the sellers in disposing of their gold abroad to tide over the present crisis; that it was only proper to draw upon the accumulated reserves in times of trouble; that the future of gold was uncertain and it was therefore best that India disposed it of now; that a part of the proceeds at least of the gold had been invested; and so on.

All this might indeed have been true, but they do not justify the disposing of of gold at a loss nor do they justify the sending out from the country the fruits of gold appreciation which could have been made use of to relieve the burden on the taxpayer. The objection is not against gold going out of the country; nor against the hard hit seller of it drawing upon his reserve strength; much less against the proceeds being invested; but against a policy which makes inevitable the parting of gold at a lower price consistently with the fixed exchange value of the rupee; which enforces upon the country an altogether unplanned and erratic inflation and currency depreciation, on the absurd basis of the difference between the gold values of two unstable currencies wholly unrelated to what the requirements of the body economic may be; and in the bargain dumps on the country a mass of progressively depreciating sterling paper in exchange for a progressively appreciating commodity, gold. If a certain other policy while promising to ensure all the advantages mentioned by Sir George Schuster and many more besides, also ensures the avoidance of its evils that policy was worth at least a moment's consideration.

But perhaps the strongest point of Sir George Schuster would seem to be that the exports of gold had improved India's credit in the world market; that they had enabled the remittances on account of Home Charges to be made without having had to borrow; that they had enabled the repayment of sterling debts

25 He cited for instance in defence of the unrestricted outflow of gold, the examples of Belgium, France, Holland and the United States of America which then had put no such restrictions. (Budget Speech of cit.)

But, of course, Sir George Schuster did well know that these countries then being on the gold standard, consistently with their remaining on gold they could not afford to put these restrictions. To have cited their examples in support of not restricting the exports of gold from India, a country off the gold standard was beside the point.

which had matured on the 1st January, 1932, of the value of £15 millions; and that they had strengthened the currency reserves of the Government.

In support of this contention the Finance Member formulated a balance sheet of gold exports and the disbursement of its sale-proceeds for the period of 15 months from September, 1931, to December, 1932. To quote his own words:

> "In this period of fifteen months, India on balance exported 107·08 crores of gold. We may thus take it that private individuals during this period acquired out of the proceeds of gold exports balances in external currency, probably mainly in sterling, to the extent of £80⅓rd millions. During this same period exports of merchandise were 181·37 crores and imports 161·45 crores, giving a favourable balance of 19·92 crores equivalent to, say, £15 millions. This sum also may be taken as having been converted into external currency balances by private individuals. Adding this £15 millions acquired against merchandise to the total of £80⅓rd millions acquired against gold exports, the total external balances acquired by private individuals from October 1, 1931, to December 31, 1932, amounts to £95⅓rd millions. Out of this sum Government has acquired by its purchases in the market as currency authority no less than £69 ⅔rd millions.
>
> In the first place Government has used about £34 millions in meeting its ordinary recurrent commitments.
>
> Secondly, it has used £15 millions in discharging the 5½ per cent sterling loan which matured on January 1, 1932, thereby liquidating an obligation which cost it £825,000 equivalent to Rs. 110 lakhs per annum, and greatly strengthening its credit in London.
>
> Thirdly, Government has added about £11 millions to its currency reserves, and lastly, the balance of £9¼ millions was added to the Government's Treasury balances, and is really potentially available for further strengthening of its currency reserves.
>
> Government therefore made good use of the abnormally high amount of sterling which it was able during these fifteen months to purchase as a result of the gold exports."

This is an account of how during a period of 15 months slightly over 14 million ounces of gold valued at Rs. 107·08 crores left the country and how Sir George Schuster got in exchange for it a mass of progressively depreciating commodity, sterling paper and what use he made of that paper. However, it is no more a justification for parting with gold at a loss nor for depriving the country of the benefit of the rise in its price than the first series of arguments advanced by him.

It may be helpful, however, to picture to ourselves what the situation would have been like if on prohibiting the exports of gold Sir George Schuster had bought the gold. The total purchases of the Government for the period of 15 months would then have been 14 million ounces of fine gold supposing the same amount of gold would have been offered for sale. Of this about 2·6 million ounces would have been needed to pay the debts due on the 1st January, 1932 (£15 millions).[26] On September 21, 1931, there was in the Government reserves £16 million sterling. These could have been passed on to England as part of the Home Remittances. The balance of £18 millions of the remittances would have required about 2·9 million ounces of gold. The remaining gold could have been put in the Government's reserves and balances in part replacing the sterling securities in them.

Thus our external liabilities could have been met in lesser gold than we have had to part with actually. Gold in the reserves would have inspired greater confidence than sterling, both internally and externally, and it would have enabled stabilisation of our currency independently of England and with less embarrassment to ourselves. Also the profits of appreciation of gold in the reserves would have accrued to the Government.

3. The profits that the sellers of gold were alleged to have made were wholly illusory. They were similar to the profits that any one can realise or feel that he has realised by measuring six yards into a piece of cloth only a moment back three yards long when bought from the shop, by cutting down the length of the yardstick to one-half. We have seen above,[27] however, that far from making profits the undervaluation of the rupee by the currency authority makes inevitable the suffering of a loss. Also ignoring temporary fluctuations the price of gold since

26 This calculation has been made on the basis of the price of gold on the 1st January, 1932, which was £5-17-11.

27 See foot-note 11, p. 11 above.

September, 1931, has been steadily rising. It rose from £5-3-8 to over £7, a fine ounce.[28]

This conclusion is not upset but rather strengthened by an examination of the index numbers. If rupee prices have not risen in proportion to the rise in the price of gold but have actually remained more or less steady, we cannot conclude that the sellers of gold have gained in terms of commodities. For, to determine the loss or gain, comparison has to be made with what the situation would have been like if the rupee had continued on gold. Rupee prices would then no doubt have fallen and the fewer rupees the seller of gold would then have got would have been of higher commodity value. We cannot ignore this factor in an examination of the significance of index numbers. Whatever the result of this investigation,[29] if on other grounds it can be shown that the seller of gold has got fewer rupees than he should or that he would have received a larger number of rupees if he could have deferred his sales, our conclusion would be strengthened rather than weakened.

4. There remained then the third alternative of abandoning the link and pursuing an independent course. This would have given us the freedom to decide upon a policy either on the lines of further inflation and depreciation before stabilisation or

[28] The heavy absorption of rupee coins after September 1931, shows that a part at least of the gold exported has been replaced by rupees. In this connection the following remarks of the Controller of Currency are of interest: " .. The most remarkable feature of the year was the heavy absorption of rupee coin in the latter months of the year . . . It seems fairly obvious that the absorption of notes and coin was too large to be attributed entirely to general price movements, and that a certain amount of the gold which was sold was replaced by rupee coin or by notes as a store of value." Report for 1931-32, p. 28.

[29] An estimate of the loss or gain in terms of commodities may be made somewhat in the following manner :—

Suppose the price index before September 21, 1931, at a convenient date was 100 and that it rose to $(100+l)$ at a subsequent date when the rupee was off the gold standard. If at this latter date the price of a tola of gold was Rs. K, then the commodity value of the rupee price of a tola of gold would be $K. \frac{100}{100+l}$. But if the rupee had continued on gold the index number in all likelihood would have fallen. Suppose it would have fallen at the latter date to $(100-l')$, then the commodity value of the sale-proceeds of a tola of gold would have been $21\frac{1}{4}. \frac{100}{100-l}$ The loss or gain to the sellers of gold in terms of commodities would depend upon whether $21\frac{1}{4}. \frac{100}{001-l} >$ or $< K. \frac{100}{100+l}$. Without showing which of these was true it is no use presuming one way or the other. In either case, however, our conclusion that the seller has lost on the whole would be strengthened and not weakened.

stabilisation without further depreciation. In the first instance, at any rate, although as indicated by the state of the exchanges during the period preceding September 21, 1931,[31] the rupee would have fallen below 18d. gold, the exports of gold subsequent to that date are abundant evidence that it would have remained much above that of sterling. It was no use, therefore, arguing as was done by Sir George Schuster that the future of the delinked rupee having been uncertain to avoid the risk of its falling below sterling it was better that it was linked to it. Thus supposing further depreciation were to be ruled out, in respect of Home Charges, divorce from sterling would have proved of some relief. But if advantages were to be found to lie on the side of inflation and devaluation in view of the major part of the world having taken to that path, as observed above it would have been advisable to restrict the exports of gold and for the Government to buy the gold.

This would not have involved the Government in any more inflation than was desirable. In any case the measure of inflation, unlike that resulting from the buying of sterling paper, that the rupee-sterling link necessitated, would not have been beyond the control of the currency authority. It could have been held in check at will or neutralised by floating loans, selling securities or curtailing the normal outflow of money through the normal channels. If too large an amount of gold for instance were to be found to have accumulated with the Government, rather than invest them in an unstable currency, it would then have been far more preferable at a convenient time to dispose of the excess, for redeeming such of the external debts as could be redeemed or for buying up others and float an equal loan at home to replace them. This would have, while neutralising inflation to the desired degree at the same time, relieved the country of a part of its external debts; stimulated the habit of investment at home for, it would have involved in part at least the replacement of hoards with government bonds; would have retained within the country, interest dues formerly paid to foreigners; would have saved the country the losses on the sales of gold inevitable under the rupee-sterling link; and would have kept at home the benefits of the rise in its price.

A part of the gold would have been required sooner or later for currency stabilisation. Having realised at such enormous cost to ourselves the dangers of a sterling exchange

30 Rupee sterling exchanges for the months of July and August were at the lowering sterling point.

standard, we could then have taken this opportunity of establishing the rupee on a gold bullion standard, of the type that was in operation in England before 1931 or is in France to-day and not the spurious one recommended by the Hilton Young Commission, 1926.[31]

In the buying of gold by the Government little or no risk would have been involved. In any case it could never have been anything like the risk involved in buying an unstable currency like sterling. Once the Government could have made up its mind at what level to fix the price of gold statutorily there was no risk whatever in buying gold at prices lower than this. On the contrary the transaction would have yielded to the Government profits represented by the difference between the prices. But the alternative policy, actually followed by the Government made the suffering of a loss inevitable by the extent of the fall in the gold value of the securities bought.[32] The buying of gold, therefore, would have brought us profits in place of losses.

But what would have been the effect of this on sterling? In the absence of support from the rupee sterling no doubt would have fallen lower than it did. The low level mark of sterling would then have been lower than \$ 3·15 reached in November, 1932. If the Government attempted to prevent this fall it could have been only at a terrible cost to itself, even supposing that foreign credits were available for the purpose.[33] The Exchange Equalisation Fund under the circumstances would have been filled and emptied several times.

Undervaluation of the rupee and the flow of gold, however, saved all this trouble. But if an embargo was placed on Indian exports the rupee would have ceased to support sterling. It would also have been the same if the Government were to buy the gold. To ask for these things, therefore, like Dominion Status was asking for too much; it was to pitch your ambition too high.

But can we now ask for just a little favour at least? If it ever be the intention of the Government to place the rupee on a

31 See my article on the Indian Currency Standard in the Indian Journal of Economics, October, 1933, p. 187.

32 Sterling has fallen by about 34 per cent of its value before going off gold.

33 It may be mentioned, however, that the Government before abandoning the gold standard had asked for further credits from the Governments of United States of America and France on the 18th September, 1931, but without success. See the speech of Mr. Philip Snowden (now Vicount Snowden) in the House of Commons on September 21, 1931. Hansard, Vol. 256 of 1931, p. 1294.

gold bullion standard gold would be needed for the purpose. A larger part if not the whole of sterling securities in the reserves to-day, therefore, could be replaced by gold. But that would of course involve throwing on the market, sterling now resting with the Government, and to that extent putting a pressure upon the Exchange Equalisation Fund, or in the alternative lowering the value of sterling still further. Besides, is there much hope of the rupee being put on any other than a Sterling Exchange Standard?

V

To summarise our conclusions. The linking of two unstable currencies to one another at a fixed ratio is objectionable on fundamental grounds. It involves losses on the exports of gold and lands the country whose currency is undervalued in inflation and depreciation without a plan. It deprives the country of freedom of action in respect of her currency and exchange policy, and prevents the adjustment of it, to the requirements of her body economic. Inadvisable on principle if a country normally has a favourable or balanced, balance of payments, even when the currency linked to is stable or on gold, linking should be wholly avoided when the currency concerned is unstable or going adrift.

And yet, the Government continued the link of the rupee to sterling in September, 1931, and landed us in instability in the name of stability. Just at the time it was not clear to them or, there was a difference of opinion on the point among their advisers, whether it was the rupee or sterling that was to have a higher gold value. While they were certainly not prepared to let the rupee be a drag on sterling—this would have meant a drain of gold from England, further inflation and further depreciation at a time when all forces were assembled in checking the progress of these at too fast a pace—the reverse situation, namely, the rupee providing a support to sterling, was altogether welcome. Adequate provision for this was, therefore, made in the Ordinance passed on the evening of September 24. Prohibition of the sale of sterling for importing gold into India—incidentally, a measure which is unique in the history of currency devaluation in the world, in that restrictions are then usually placed on the exports of gold leaving free the imports—and restrictions on the sale of it generally ensured that if sterling were to remain higher than the rupee, it could leave behind the latter. But there being no restrictions on the exports of gold

from India, their imports into England, or the buying of sterling by the currency authority the rupee could not escape sterling being saddled on it. It is a matter for regret that this aspect of the case went unnoticed, for, an understanding of it would have left no doubt in our minds as to the purpose of continuing the link of the rupee to sterling at the 18d. sterling ratio.

Actually the latter of the two alternatives having come true India was forced to suffer all the consequences incidental to it: losses on gold exports, unplanned and erratic expansion of currency and depreciation, and exchange of appreciating gold for depreciating paper.

The best policy under the circumstances, however, would have been to delink the rupee and then follow what course was best suited to our requirements. If devaluation were then to be decided upon, it would have been desirable for the Government to restrict the exports of gold and buy it themselves. While avoiding all the evils of the rupee-sterling link this would have retained within the country profits of gold appreciation; enabled us to effect devaluation, and inflation according to plan; stimulated the habit of investment; improved our credit abroad; brought within the country part of the interest charges now paid to foreigners; saved us the losses on sterling paper that the rupee-sterling link dumped upon us; and would have kept us in adequate supply of gold for stabilisation on the lines of a gold bullion standard.

But if we were to have these advantages, it could only be at the expense of England's getting the benefits she got from the rupee-sterling link. Sterling under the circumstances would have fallen far lower than \$ 3·15 which it did in November 1932, and the cost to her in preventing this if she attempted to would have been enormous. She would not have been able to pay away, at any rate in time, her gold obligations without considerable sacrifice.

To ask for an embargo on gold, therefore, is asking for far too much. For, the embargo would have led to the snapping of the link and the abandonment of sterling to a worse fate than actually.

SOME ECONOMIC FEATURES OF THE TRAVANCORE CENSUS OF 1931*

BY

N. S. NARASIMHA AIYANGAR, TRIVANDRUM.

1. *Preliminary.*—The system of taking a decennial census of the population has been followed in Travancore, as in India, since 1881. The recent census is of peculiar value as it records the growth of population during fifty years of peaceful and progressive administration of the State. But unfortunately the Census Report is not of as much interest to the student of Indian Economics as similar reports in other countries, the chief reason being that it has been prepared for certain narrow administrative purposes rather than to serve as a gauge of national prosperity. There is, however, one redeeming feature in the Travancore Report of 1931:—It contains a very interesting appendix (Appendix IV), dealing with certain aspects of the economic condition of the people, the like of which is not found in the Indian Census Report. The main body of the Report also contains some amount of relevant matter throwing light on other aspects, *e.g.*, the chapter dealing with 'Age Distribution' affords us information about the potential labour force of the State and the actual number of earners, workers, working and non-working dependants; chapter VIII contains particulars about the numbers and proportions of people employed in different occupations. It will therefore be worth our while to make a careful study of the latest Census Report of Travancore, collect from it the facts and figures bearing upon the condition of the people and comment upon them, with a view if possible, to draw a plan of economic development for the State about which, both the Government and people are now so keen.

Though Travancore is a comparatively small State with an area of 7,625 sq. miles only, it ranks third among Indian states, so far as the number of the people is concerned. Its average density is 668 per sq. mile, which exceeds that of the districts of Malabar and Tanjore—the two most crowded areas of the Madras Presidency. It is only exceeded by that of its sister

* A paper which was prepared for the Indian Economic Conference held at Patna, in December 1934, but which could not be submitted in time.

state—Cochin—and the two together can be compared only with the crowded parts of North Eastern India, lying on the lower reaches of the Ganges and the Brahmaputra.

2. *The Growth of Population since 1881.*—Accurate decennial census has been recorded in Travancore only since 1881. The growth of population during the last fifty years has been phenomenal. In 1881 the population was a little over 24 lakhs. In 1931, it stood at over 50 lakhs. Thus between 1881 and 1931 it has more than doubled itself. In this respect, it has even surpassed its neighbour Cochin where the rate of increase has also been very great.

Not only has there been a steady increase in numbers but there has also been a progressive increase in the rate of growth from decade to decade. Omitting the first decade for which the statistics were not quite accurate, the rate of natural increase in the subsequent decades has been 10·6 per cent, 15·8 per cent, 18·7 per cent and 23·7 per cent. The normal rate of increase per annum since the beginning of the current century has stood at the high figure of 1·78 per cent.

The explanation for these remarkable features is to be found in the natural and social conditions of Travancore. The birth rate (41 per mille) is higher and death rate (20 per mille) lower than elsewhere in India. The majority of women marry between the ages of 15 and 20 when the rate of fertility is highest and the survival rate of children born is greatest. The death rate is lower because the climate is more equable and the country is comparatively free from epidemics.

To the economist, these are interesting facts. They lend some support to the Malthusian Theory that population, if left unchecked by other forces, tends to grow in geometrical progression.

Till 1931, the conditions in Travancore seem to have been favourable for the continuous and rapid growth of population. But the outlook for the future is not so bright. In the opinion of the Census Commissioner, Travancore has already reached the state when the population has begun or will begin to outrun the means of subsistence (see Report page 42, sec. 67). He supports his view by showing that the area under cultivation per head of the population is falling steadily, and the increase in outturn of the principal crops does not make up for the fall in the area (*ib.*, page 43).

But against this opinion it may be stated that these two tests are not conclusive. Firstly, the relation between Production and Population is not so simple and direct as is here assumed.

Even though the output of certain staple crops has not kept pace with the growth of population, that of others has far exceeded it and if Travancore would exchange the surplus of the latter for food from outside as normally it has been doing, the fear of population outrunning food supply is groundless. In fact we find that the areas under commercial crops like cocoanut, rubber and tea have either kept pace with or far exceeded the growth of population (see page 22, sec. 35) and their output have increased even more than their acreage. The manufacturing industries of the country have also shown great progress during the last census decade except perhaps in the last year of it. After a review of these, the Commissioner himself in another part of the report has said:—"These facts go to show that the material prosperity of the average Travancorean has been such as to conduce to a rapid growth of population" (page 25, sec. 41).

The apparent inconsistency between this statement and the former one may perhaps be explained thus: till 1930, the conditions were favourable to the growth of population, but since then signs have appeared which tend to show that the number has reached what may be called the *optimum point.* Indeed, the present world depression has hit Travancore very hard, because its commercial crops are mostly intended for foreign markets, and the demand for them has fallen considerably since 1931.

At present therefore there appears to be a conflict between two forces—the natural tendency of the population to grow rapidly and the economic depression in the world which tends to keep it down. In regard to the former, the age composition of the population is such that "the proportion of married women at the earlier child bearing ages has actually increased since 1921" (see page 111). Consequently, the birth rate is likely to be high unless there is a decline in the marriage rate. It is true that among educated girls there is a tendency for postponement of the age of marriage, if not for fighting shy of it altogether, but they form so small a minority that it is not likely to affect much the birth rate. The economic difficulties will, however it is to be feared, operate to the detriment of the conditions of health of the people and thus increase the death rate. In any case it may be forecasted that the rate of growth during the current decade is not likely to be as great as in the last.

3. *Potential Labour Force of Travancore.*—The second economic feature of the Census to which we may pay attention is the 'age composition' of the existing population. Two of the primary uses to which the census can be put by the Economist

are to compute the potential labour force of the community and the ratio of the *working* population to the *dependent* population. Persons under 15 and over 55 are, in Travancore, normally incapable of supporting themselves by their own work and thus become dependent upon the productive activities of others. Applying this test, we find that out of 1,000 persons 485 belong to this category and 515 are between the ages of 15 and 55, that is to say, practically one-half of the total population is by reason of age, unable to maintain themselves by their own exertions. One peculiar feature of the age distribution in Travancore is that children under 12 form nearly one-third of the total population, and out of this again more than one-half (17 per cent) are under five years of age. From this we infer that the excess of births over deaths during the second half of the last census period has been abnormally great. This may be accounted for by the general prosperity of the last quinquennium. Naturally, therefore, there has been a fall in the proportion of the population between the ages 15 to 50 since the census of 1921. From over 502 per 1,000 it has fallen to 484. This is a distinct disadvantage to the productive capacity of the nation.

4. This question leads us to the Statistics of *Occupations*. After the census, instead of the old two-fold classification of Workers and Dependants, a three-fold classification was adopted in Travancore as throughout India, *viz.*, Earning Workers, Working Dependants and Non-working Dependants, the first two categories together corresponding to the old group of Workers. Under the last category, come children under 12, boys and girls at school, and the old and the infirm. The percentages of the three classes are 29, 18·2 and 52·8 respectively. This implies that more than one-half of the population is dependent upon the work of the rest for their sustenance. This feature is not peculiar to Travancore. The State shares it with the whole of India. But it may be mentioned, in passing, that in the neighbouring British Provinces of Madras, the percentage of non-working dependants is lowest among the major divisions of India being only 44.6, nearly 11.5 per cent less than in India as a whole. The Workers in Travancore have thus not only to maintain themselves from out of their earnings but also maintain another body of dependants even larger than themselves. So, unless their average income is at least twice what is necessary to maintain them, the whole body of the people will be in a miserable condition.

Two important factors lead to this undesirable feature—the age distribution of the population and the social and economic

position of women, to the former of which we have already adverted. In Travancore the percentage of the population between ages 15 and 55 (51·5) roughly corresponds to that of the working population (47·2) and would be the same, if we made allowance for the larger numbers of dependants among the well-to-do classes. In regard to the second factor, as women are comparatively free in social life, they substantially contribute to the total strength of Workers. In those parts of India, where there is a large population who observe *purdah* it is otherwise.

5. *Distribution of workers among different occupations.*—Passing to individual occupations, we find that the distribution of earning workers in the main groups is as follows:—

Agriculture, Pasture, Hunting, etc. ...	55·5%
Industry (mostly domestic) ...	18·6%
Trade and Transport	12·1%
Public Administration, Professions, and Liberal Arts	4·8%
Domestic Service	1·3%

Though the exploitation of the resources of nature is the predominant occupation of the people, it does not engage so large a percentage of the working population in Travancore as in India as a whole where it is 67. Other occupations like Trade and Industry provide employment for a fairly large percentage of earners in Travancore. The economic structure of the State is thus better balanced than elsewhere in India. But, as industry, trade and transport are intimately connected with sea-borne foreign trade of Travancore, the present depression has hit the population of the State harder.

The proportions of the *total* population dependent on the various occupations follow closely the percentages of the *earning* workers in them. Thus, agriculture and kindred occupations support 54·3 per cent of the population, Industry 15·1 and Trade and Transport 10.

If we include the working dependants also among workers we find the following distribution of the working population among the various occupations:—

Agriculture and kindred occupations	39%
Industry	19%
Trade and Transport	10%
Administration and Professions ...	3%
Domestic Service	30%

Domestic service thus ranks next to agriculture as the most attractive occupation. This is but natural in the social and economic system of India where the usual place of women is the domestic hearth.

6. The next feature worth considering is the strength and position of the *female population*. In Travancore as in India, but unlike Madras, there is an excess of males over females. There are 987 females for every 1,000 males, while, in India, the ratio is 940 and in the Madras Presidency, it is 1,025. But non-working dependants form a greater proportion of the female population than of the male. While among the latter the numbers of workers and dependants are very nearly equal, among women, the percentages are 44·6 and 55·4 respectively, including those engaged in looking after household duties. If we confine our attention only to ' earning workers,' there are four and a half times as many men as there are women.

Apart from domestic service, the main occupations of women are agriculture, work in fibres, trade, rice-pounding, washing and cleaning. In the organised industries like textiles, coir factories, tea, rubber and cardamom plantations they are also largely employed, forming 36 per cent of the total number of labourers in them.

7. Another problem connected with the question of occupations is that of *unemployment*. This was one of the few specific economic questions to which the Census Commissioner of India first drew the special attention of the Provincial Offices and on which he recommended that separate statistics might be collected. But later on, this enquiry was abandoned in the case of most parts of India. In Travancore, however, the original direction of the Indian Census Commissioner was partially carried out and some figures were collected. As the result of their enquiry, the number of employed is declared to be 5 lakhs, *i.e.*, nearly 10 per cent of the population. But there seems to be a slight mistake in this calculation. For the question of unemployment should be considered only with reference to people between the ages of 15 and 55. This does not appear to have been done. If a deduction were to be made for this, the number of unemployed, would be only a little over 2 lakhs, *i.e.*, 4·3 per cent of the population.

Another point to consider here is whether ' *non*-employment ' is the same as ' *un*employment.' It may very well be that many among the non-employed are either unwilling to seek employment or to take up the employment for which alone they are fit, that is to say, that are unemployable. No attention appears to have

been paid to these aspects of the problem. In any case, unemployment in a predominantly rural and agricultural country like India is not susceptible of such accurate measurement as in the urbanised industrial countries of the west, nor perhaps has it similar dire consequences. The more important question for solution here is how to cure 'under-employment.' In rural parts, the cultivators have work only for about half to three-fourths of the year and they have to waste the rest of it. As the Royal Commission on Agriculture pointed out, suitable employment for their spare time has to be discovered (cf. Report pp. 488 and 566).

8. We may now turn our attention to the interesting Appendix IV, which is a special feature of the Travancore Census Report. It contains some valuable information on the Wealth, Income and Indebtedness of the People of the State. The figures collected under these heads cannot however be regarded as quite accurate. They are subject to various limitations as pointed out by the Census Commissioner (*vide* page 467 of the Report). But in spite of them, the statistics are of interest to the economist, as the following *résumé* will show:—

(*A*) *Wealth.*—The method adopted for collecting the particulars under this head was somewhat crude. The same agency was employed for the purpose of this enquiry as for the ordinary census, though it requires greater intelligence to ascertain these details. Again, information has been got from only the earners, *i.e.*, those who actually work or carry on business or who live on house-rent, pension, etc. (page 467 Report). The other classes of the people, working dependants and non-working dependants have not been included in the investigation. The omission is not so very serious perhaps as the wealth and income of their classes may not be great. Another defect is that mortgages of land appear to have been included along with the value of the property on which they have been raised.

Wealth is taken to comprise the following:—(1) land including standing trees, (2) houses, (3) implements of Agriculture, cattle, (4) moveable property like furniture, jewellery, etc., and (5) money investments. The first head represents 79 per cent of the wealth, the second 10 per cent, the third and fourth and fifth together 5 per cent, and the last 6 per cent.

Land.—The total extent of landed property is nearly 2,200,000 acres of which 600,000 is wet and 1,600,000 is dry. It gives 45 cents per head of the whole population—composed of 12 cents of wet land and 33 cents of dry. If we could equate the two by a rough scale thus, that 1 acre of wet land

equals 3 acres of dry land, as is sometimes done in British India then it would work out to 70 cents per head. Among earning workers 20 per cent own wet land and 50 per cent dry land. Of course many own both wet and dry land but no statistics appear to have been gathered on that point.

Some interesting details have been furnished of the size and ownership of holdings based on certain random samples taken out of the general economic census. Thus we learn that 62·5 per cent of the owners of wet land have less than one acre each, 18 between one and two acres, 7·2 between 2 and 3 acres and only 12·3 per cent above 3 acres. Similarly nearly 90 per cent of the owners of dry land have less than 5 acres. Unfortunately we are not given timely details about the ownership of wet and dry lands taken together, though ordinarily a Travancorean possesses both kinds of land. In another connection however some information is given about the size of holdings in general, but it is largely guess work. Thus on page 490, para 58 of the Appendix IV, it is stated: "According to the returns of the economic census, the area cultivated is 1,650,000 and the number of cultivators 629,887. The number of holdings may be taken to be the same as the number of cultivators and in that case the average size of a holding is 2·62 acres. Holding here means only the total area cultivated by an individual, irrespective of its being in one compact block or in scattered bits. Information has not been collected on this point. . . . ." That is very unfortunate; because, details about the acreage of wet land or dry land taken separately or of wet and dry taken together, belonging to different cultivators have by themselves no value to the student of economic conditions. What he would like to know is how many cultivators have an 'economic holding,' *i.e.*, a plot of either wet land or dry land or a combination of the two, which would either keep him and his family fully engaged all the year round or will maintain them in decent comfort. Without a special enquiry, this cannot be found out. The definition of an economic holding itself is far from clear. The size of it will depend on various factors—the character of the land—wet or dry, the nature of the soil—thin or heavy, etc.,—its water facilities, the character of the crop which is raised on it, the facilities for marketing the produce, the caste and social position of the cultivator, etc. The Census Commissioner has however asserted rather dogmatically that it should be *five* acres per each worker and for a family of five members of whom two would be workers, it should be 10 acres and applying this test has stated that more than 95 per cent of the holdings in the State are uneconomic (see

page 46). One should hesitate to accept such a summary disposal of the matter. His opinion may be accepted if the acreage refers to *dry* land, but in regard to *wet* land 3 to 4 acres per family would be an economic holding.

From the point of view of *Inequality* of Distribution of Property, we find that holdings under one acre of wet land comprise 13·5 per cent of the total wet area, those between 1 and 3 acres 23·6 per cent, from 3 to 5 acres 11·9 per cent, 5 acres and above 51 per cent. Similarly in regard to dry land holdings under 1 acre comprise 7·2 per cent of the total area, between 1 and 5 acres 38·5 per cent, and 5 acres and above 54·7 per cent. But as in the previous case we have no figures for the combined ownership of wet and dry land. In any case, the general observations of the Commissioner that there is less inequality of distribution of land in Travancore than in England or the United States of America (page 474) may be accepted.

Some figures of the Registration Department have been given to illustrate the effect of the *partition of Tarwads* on the subdivision of landed property, which show that subdivision of holdings is going on at a rapid pace among Nairs and Ezhavas with disastrous social and economic consequences.

To conclude the survey of this item of wealth, the total value of landed property of the State is estimated at 150 crores. The method of valuation, however, has not been explained. It would appear that the average price for an acre of wet land is Rs. 860 and of dry land Rs. 560.

All the other items of wealth are estimated to be worth about 40 crores. Adding the two, we get a total of 190 crores, which distributed among a population of over 5 millions gives an average wealth of about Rs. 380 per head (p. 471).

(*B*) *Debt.*—If we pass from individual wealth to national wealth, we shall have to exclude the total amount of debt owed by the citizens to one another and to include the wealth of social and religious associations as well as of the Government. No statistics are available regarding the latter item. But the Census Commissioner has collected some information on the first head.

The total amount of debt of the earning population has been estimated at 20 crores and is composed of the following items:—

(1) Usufructuary mortgage of land	4·37 lakhs
(2) Simple mortgage or hypothecation debt	7·05 „
(3) Unsecured debt	5·01 „

plus 25 per cent for possible omission.

This yields a *per capita* debt of Rs. 40 which is somewhat higher than that for Madras (36) and for British India as a whole (37), according to the estimates of the Banking Enquiry Committees.

If we confine our attention to the burden of debt on land, we find that it amounts to 11½ crores or 13 per cent of the value of the land. We have no figures to determine what proportion of the owners of land bear this burden. But if we take the total number of earners owning wet land and dry land and compare it with that of persons who have either mortgaged or hypothecated their land, it would come to nearly 25 per cent.

(*C*) *Income.*—Economists generally regard income as a better index of prosperity than wealth, and hence in recent times in several countries of the world very careful and elaborate enquiries have been made for estimating the total income of the people and its distribution among the different classes. But in India nothing of a comprehensive character of this kind has been done so far. The Government is still considering the necessity for it and the method to be adopted. The Census Commissioner of Travancore has however availed himself of the opportunity of conducting the ordinary census operations to attempt to supply this want in the case of the State. From the economic census which was taken along with the other, he has estimated the income at nearly 21 crores, which is nearly 11 per cent of the total capital wealth of the country. And going into the heads of the estimate, we get the following details:—

Income from agriculture including rent, profits of cultivation ...	830·2 lakhs
Income from occupation including wages of agricultural labour ...	1167·8 „
Income from investments ...	91·9 „

If these figures are accepted as correct, the average income per earner would be Rs. 154 and per head of population Rs. 41. But the Commissioner thinks that there might be a large margin of error (*i.e.*, 25 per cent) in these calculations, and in support of this opinion, he gives only one argument, *viz.*, that the total cultivated area according to the economic census is 1,650,000 acres while according to the "Statistics of Travancore" (an Annual Publication of the Government) it is nearly 2,201,000 acres. He does not say how the latter figure was arrived at. In any case, it is rather hard to believe that there could be such

a large margin of difference. For anything, the detailed census must be regarded as more reliable than the rough estimates by the revenue and agricultural departments recorded in the volume of "Statistics of Travancore". Further, in computing the income from agriculture he says: "if this (*i.e.*, rent) is also included in the income from cultivation, the average per acre comes to Rs. 50, excluding wages." This seems to be rather a high figure. In the Introduction to the Appendix where the schedule, containing the items on which figures of income were collected, is set out, the rent of land (item 14) is separated from the "value of crops" raised (item 15). But the reason for the differentiation is not given, nor is it obvious. There is nothing to show that the latter refers only to the value of the *Net* Produce, excluding Rent, on the one hand and the wages of agricultural labourers on the other hand. Owing to these obscurities we wonder whether the figures for income have not been exaggerated, by the same items being counted more than once. We are therefore unable to accept without hesitation the figures given by the Commissioner. It may be safely said that his figures mark the *upper* limit of the income amount.

The Commissioner has attempted to find out how the total income has been distributed among the earning population (68) and he concludes that section thus: "The distribution of income is not so unequal as that of land." This is what might have been expected.

Some interesting figures are also given of the average income per head per annum in the chief occupations, which throw light on the social conditions of the people in Travancore. Thus while the agricultural labourer gets Rs. 61 only, unskilled labourers in other occupations get Rs. 80. This cannot be explained on purely economic grounds. Estate coolies who may also be regarded as closely akin to these two classes get Rs. 119 probably because they are more efficient. Next to agriculturists, persons engaged in food industry get the lowest income—Rs. 74 per head, then comes fishing (Rs. 80), then textile industry (Rs. 89), wood industry (Rs. 107). Trade and Transport on the other hand yield high averages Rs. 196 and Rs. 182 respectively, but the best paid occupations are of course Public Administration and the Professions and the Liberal Arts (Rs. 332 and Rs. 247 respectively).

(*D*) Some statistics of *wages* were also collected which throw light on the poverty of the labouring classes. For ordinary agricultural labourers who form nearly 25 per cent of the earning population the average wages per day of a man is

chuckrams* 10¼ or about As. 6; the wages of women is about ¾ of that of men and of children one-half. Among agricultural operations, those connected with cocoanut plantations get the highest wages, going up to 17½ chs. (10as.) for plucking and husking cocoanuts.

Among non-agricultural domestic occupations, the lowest wages are paid for potters (8 chs.) and highest to carpenters (18¾ chs.), and the smiths—blacksmiths (15 chs.), copper and brass smith (15¾ chs.), goldsmith (18½ chs.).

In regard to the wages in organised industries, the lowest wages are paid in Rubber plantations—Men's wages being only 10½ chs. the highest being in coir, mat and matting factories, where they are nearly twice as much, *viz.*, 21 chs.

As regards working days, while in agriculture it may amount to 200 days at the most, in the other occupations it goes up to 300. Thus the condition of agricultural labourers is most pitiable—low wages and seasonal unemployment. The only cure for it is the development of industries suitable for the employment of unskilled labourers.

9. *Conclusion.*—From this brief review of the latest Census Report of Travancore, we gather that the material condition of the people is very poor and that the scheme of industrial and economic development advocated by the Dewan in his recent address to the Legislature is not only opportune but vital to their welfare. To work out the details it will be necessary to make a preliminary survey of the existing cottage and domestic industries, and to investigate the possibilities of developing large-scale industries like power loom Weaving, Paper and Match manufactures, Sugar Refineries and of starting new industries like the manufacture of agricultural implements, glassware, etc., for the products of which there is a large and steady demand. Though it may not be possible for a small State like Travancore to draw up a comprehensive economic plan, it is absolutely necessary that a detailed programme of economic development which would provide suitable employment for its growing population should be laid down and worked out with steadiness and courage.

* A chuckram is approximately equal to 6¾ pies.

UNFAIR COMPETITION

BY

N. N. DAS, M.A.

In recent years, we have heard much about unfair competition. It is generally found, that whenever the manufacturers fail to compete with their foreign rivals, they ascribe their failure to unfair competition and ask for the imposition of safeguarding duties. Their claim for relief has never been denied and even in a free-trade country like Great Britain, it is recognised. But the definition of unfair competition varys and what in one country is considered unfair competition may not be so considered in another country. Again the mere existence of unfair competition has seldom been considered as a sufficient ground for the imposition of safeguarding duties. The conditions, that must be satisfied before such duties are imposed, are not the same in all countries. In India, a large number of industries had complained of unfair competition and in some cases safeguarding duties have been imposed. In this article, we shall see how the question of unfair competition has been dealt with by the Tariff Board and the Government of India and under what circumstances relief has been given to the affected industry.

Let us first of all consider, what is meant by unfair competition. In India, unfair competition has not been defined as has been done in the British Safeguarding of the Industries Act.[1] The Indian Fiscal Commission recommended the imposition of additional duties, (*a*) when there is dumping, (*b*) when the foreign product has received any bounty or subsidy or (*c*) when the currency of the country from which the goods are imported is depreciated. In addition to these, competition arising out of inferior labour conditions of which no mention was made by the Indian Fiscal Commission has also been recognised as unfair competition. Therefore the competition

[1] Under this act, competition is held to be unfair when, " it arises from one or more of the following conditions—(a) depreciation of currency operating so as to create an export bounty, (b) subsidies, bounties or other artificial advantages, (c) inferior conditions of employment of labour whether as respects remuneration or hours of employment or otherwise obtaining amongst persons employed in the production of imported goods in question as compared with those obtaining among persons employed in the production of similar goods in the United Kingdom." This definition excludes dumping when it does not arise from any one of these causes.

arising out of any one or more of these causes should be considered as unfair competition.

Let us now consider how a departure was made from the usual definition of dumping. The Indian Fiscal Commission defined dumping, " as the sale of imported merchandise at an F. O. B. price lower than the prevailing market or wholesale price in the country of production."[2] Innumerable other authorities may be cited to show that dumping generally means price discrimination in favour of the foreign purchaser. But in dealing with the application of the oil industry dumping was so defined as to include sales at a price which was higher than the prevailing market or wholesale price in the country of production. In 1927, there was a fall in the price of kerosene which was ascribed to the price war that was then going on between two foreign companies, *viz.*, The Standard Oil Company of New York and the Royal Dutch Shell Group. The Indian producers of kerosene felt their position insecure and applied to the Government for protection. The Government of India referred the matter to the Tariff Board with directions to ascertain whether there was any dumping in the sense of its sales being below the equivalent of the world parity price.[3] What is meant by the equivalent of the world parity price? The Government of India did not explain what they meant by the equivalent of the world parity price and it was left to the Board to interpret what was meant by the world parity price. The Board[4] held that in order to ascertain the equivalent of world parity price of kerosene, it is necessary to ascertain the price of kerosene in that particular country of production from which it is likely to be imported in quantities sufficient to meet the demand of the Indian market. By adding charges, incidental to importation, landing, storage, customs duties and profits to the price thus ascertained, we get the Indian equivalent of the world parity price. The Board found that oil in quantities sufficient to meet the demands of the Indian market was likely to be imported from U.S.A. The equivalent of the world parity price in the Indian market was therefore held to be the F. O. B. price of kerosene at the American Gulf ports plus charges incidental to importation,

2 Para 134.

3 Resolution of the Government of India No. 141-T(89) dated the 26th March, 1928.

4 For the sake of lucidity and brevity, the findings and recommendations of the majority of the members of the Board have sometimes been described as those of the Board.

landing, storage, profits and customs duties. The F. O. B. price of kerosene at the American Gulf ports was found to be Rs. $1\frac{3}{4}$ per unit of 8 gallons and adding the charges mentioned and making the necessary adjustments, the Indian equivalent of the world parity price was found to be Rs. $4\frac{1}{2}$ per unit of 8 gallons. Any sale of imported kerosene at a price less than Rs. $4\frac{1}{2}$ per unit of 8 gallons was held to be dumping and the Board found that there was dumping.[5] The President of the Board in a minority note disagreed from this view and held, " that with reference to any particular market, the equivalent of world parity price must be the price at which under competitive conditions petroleum products can be landed in that market on a commercial scale."[6] Thus while the majority note took into account all imports though the competitive conditions might not exist, the minority note took into account, imports either actual or probable under competitive conditions only. The President pointed out that under competitive conditions kerosene in quantities sufficiently large to influence prices and perhaps to meet the whole of India's demand for foreign kerosene was likely to be imported from Russia. The F. O. B. price of kerosene at the Russian port Bautom was found to be Rs. $1\frac{3}{8}$ per unit of 8 gallons and the Indian equivalent of world parity price on that basis was found to be Rs. $3\frac{1}{2}$ per unit. Any sale of imported kerosene at a price less than Rs. $3\frac{1}{2}$ per unit was considered by the President as dumping. The Government of India in a resolution adopted on the report admitted " that the determination of world parity in respect of kerosene prices presents difficulties and that various views may be taken " and they did not commit themselves to any particular view.[7] Now if the usual definition of dumping had been accepted then there would have been no dumping unless the sale of Russian oil was at a price lower than Rs. $1\frac{3}{8}$ per unit and of American oil at a price lower than Rs. $1\frac{3}{4}$ per unit. Therefore, whatever interpretation of world parity price be accepted there would be dumping if imported oil is sold in India at a price double the prevailing price in the country of production.

We shall now consider the conditions, that were required to be satisfied before safeguarding duties were imposed. In this enquiry the Board was asked to report, if dumping was found, " whether it is in the national interests that protection against the dumping of imported kerosene should be given." The

5 Majority Report, Ch. II.

6 Minority Report, Para 30.

7 Gazette of India Extraordinary, of the 12th September, 1928.

Government of India did not explain what they meant by national interests. The Board considered the national interests under three heads, *viz.*, (1) the national interest in maintaining the oil industry and in utilizing the country's oil resources to the highest advantage, (2) the interest of the Government, and (3) the interest of the consumers. The Board found that even though there was dumping, it was not in national interests to protect the industry against such dumping.

We shall now consider the case of another industry. The manufacturers of wire-nails asked for protection. The Board found that the low price of imported wire-nails was partly due to the subsidies granted by the Steel Syndicate of Germany to the exporters of nails but the Board failed to recommend the imposition of safeguarding duties against such unfair competition. They observed that, "If the applicant firms had succeeded in showing that the low price of nails was mainly due to German export rebates, they might have a claim to protection against such unfair competition. They have been unable to do this and the extent to which the export of nails is subsidized is quite uncertain. Dumping apparently is one of the causes why the nails are sold at a price little higher than the price of wire and some of these causes are not temporary but permanent."[8] The Government of India accepted the recommendation of the Board and no steps were taken.[9] We think an injustice was done to the industry in refusing protection against unfair competition. The actual injury suffered by the industry ought to have been considered sufficient for the imposition of safeguarding duties. The inability of the industry to withstand foreign competition in spite of safeguarding duties ought not to have been a ground for refusing aid. We shall now deal with the case of coal industry. The question of imposing countervailing duties on South African coal which enjoy indirect bounty in the shape of rebate of railway freights was considered by the Legislative Assembly in 1924, when it adopted a resolution recommending to the Governor-General-in-Council the imposition of such duty. But no steps were taken to give effect to this resolution, as the Government was not in favour of it. Thereafter the coal industry asked for protection and the Government of India directed the Tariff Board to enquire and report. The Board found that the industry did not satisfy the conditions for the grant of protection but the Board also found that the industry

8 Report, Para 29.

9 Resolution published in the Gazette of the 17th July, 1926.

was suffering from unfair competition. The South African railways which are owned by the Government carry coal meant for export from Pitsmouth to port at a much lower rate than the rate chargeable on coal meant for other purposes. This acts as a bounty on export and the competition of South African coal was therefore regarded as unfair competition. The bounty thus enjoyed by South African coal was estimated to be 5s. 7½d. per ton. Under the Indian Tariff Act, the Government of India possesses discretionary powers to impose countervailing duties on all subsidized or bounty-fed imports. This discretion should be used in accordance with the policy of discriminating protection. The Board held that this can best be done by following the procedure followed in the United Kingdom. Now in the United Kingdom the Safeguarding of the Industries Act empowers the Board of Trade to impose countervailing duties. But before the countervailing duties are imposed a committee is appointed to enquire among other questions, (1) whether foreign goods are imported in abnormal quantities, (2) whether the employment in the industry is seriously affected by the sale of foreign goods, and (3) whether the industry is carried on with reasonable efficiency and economy. Compared with the total output of the Indian mines the quantity of imported South African coal was negligible and the employment in the industry was not much affected by the imports. Moreover the bounty alone was not responsible for the sale of South African coal. The prejudice against Indian coal due to the unsatisfactory quality of the Indian supplies in the past was also partly responsible for the sale of South African coal. So it could not be said that the industry was being conducted with reasonable efficiency and economy. Thus these three conditions were not satisfied. Moreover the countervailing duty was not likely to be of great benefit to the industry and the utmost that it could do was to increase the sale of Indian coal by 100,000 tons which was less than one per cent. of the output of Bengal and Behar collieries. On these grounds the majority of the members of the Board recommended that no countervailing duties should be imposed.[10] In a minority note, the President of the Board, disagreed from this view and held that in accordance with the policy of discriminating protection it is not proper for India to be guided by the example of Great Britain, which is a free-trade country. In other protectionist countries, *e.g.*, U. S. A., South Africa, Australia and Canada, no

10 Majority Report, Ch. IV.

actual injury need be proved and steps are taken when the injury is only apprehended. Even the Indian Fiscal Commission was of opinion that steps should be taken against "any deliberate action of a foreign state tending to stimulate its exports at the expense of any Indian industry." According to this view, even actual injury need not be proved. The coal industry has suffered actual injury. No doubt, the gain to the industry from the countervailing duties would be small but that ought not to have been a ground for refusing relief. On these grounds, the President of the Board recommended the imposition of countervailing duties. The Government of India adopted a resolution on the report of the Tariff Board in which they accepted the recommendations of the majority note.[11] We think, the Government of India ought to have accepted the recommendations of the President especially in view of the expressed desire of the Legislative Assembly to impose countervailing duties.

Thus we find, that the conditions, that the industries were required to satisfy, were not the same in all cases and relief against unfair competition was refused on various grounds.

So far we have considered the cases in which protection against unfair competition was refused. We shall now deal with the Cotton Textile Industry which has been able to obtain relief against unfair competition. In 1927, the Tariff Board, while examining the causes of depression in the Cotton Textile Industry found that the Japanese competition was unfair competition as the condition of labour in Japan was inferior to those of India. The advantage, enjoyed by Japan due to inferior labour conditions was assessed at 4 per cent. on the actual cost of production of both yarn and cloth. But this advantage would be considerably higher if a reasonable return on capital was also included. The Board recommended that relief should be given to the industry against such unfair competition. As it was found that as regards piecegoods the revenue duty of 11 per cent. sufficiently covered the advantage enjoyed by Japan, additional duties were not imposed. As regards the yarns, a minimum specific duty of 1½ as. per pound was imposed on imported yarns by Act XXIII of 1927, to give relief to the industry against unfair competition. It might be asked, why the duty was imposed on all imported yarns and not on Japanese yarns only. One of the primary considerations that influenced the Government not to impose differential duties on Japanese yarns was the existence of the Anglo-Japanese Trade convention. By this

11 Gazette of India, of the 17th July, 1926.

convention, Japan was entitled to most-favoured-nation treatment and without abrogating the convention it was not possible to impose differential duties on Japanese yarns only. Even when there is no trade convention, differential duties are not imposed without carefully examining the question in all its aspects. This was made clear by Sir George Rainy, the then Commerce Member, in his speech which he made in introducing the bill to protect the Cotton Textile Industry. He observed, "Discrimination against the imports of a particular country is a measure which can be justified only by very exceptional circumstances but when a proposal of this kind is made it is necessary to weigh fully the advantages and the possible disadvantages on the other."[12]

By the Japanese Factory Act which came into force in 1929, the inferior element in the Japanese competition was removed. But it was found by the Government that the condition of labour in China was much inferior to that in India. Large quantities of Chinese yarn were also imported into India. The competition of Chinese yarn was therefore held to be unfair competition and protection was given to the industry by keeping in force the operations of the previous Act (Act XXIII of 1927) for a further period of three years. In this case there was no enquiry by the Tariff Board.

Thereafter, in July, 1932, the cotton millowners again asked for the imposition of safeguarding duties on the ground that owing to the depreciation of yen, the Japanese competition was unfair. An enquiry was made by the Board and acting on the recommendation of the Board the duty on goods not of British manufacture was raised to 50 per cent. *ad valorem* with a minimum specific duty of 5¼ as. per pound on plain grey goods. This was done by a notification under Section 3 (5) of the Indian Tariff Act. There was a further depreciation of yen and in July, 1933, by another notification under the same section the *ad valorem* rate was raised to 75 per cent. and the minimum specific rate was raised to 6¾ as. per pound. As it was found that due to the depreciation of Japanese currency numerous other industries were also affected, notice was given denouncing the Anglo-Japanese Trade convention and the Safeguarding of the Industries Act was passed. This Act empowered the Government to impose additional duties on imported goods if those goods "are being sold in or imported in British India at such abnormally low prices that the existence of an industry established in British

12 Legislative Assembly Debates of the 22nd August, 1927.

India is thereby endangered." The duty is to be imposed by a notification and the said notification is to be placed before the legislature and the sanction of the legislature is to be obtained. No notification has yet been issued under this Act. The Act is only a temporary measure and will expire on the 31st March, 1935.

Though the Tariff Board often recommended measures to safeguard the Indian industries against unfair competition, they did not object when Indian industries wanted to increase their sales by unfair competition. Thus in their report on the cement industry they observed, that, "if any of the Indian factories increase their output by a certain amount of dumping in Burma, there is no reason for objection. The same consideration will apply to cement intended for export."[13] Another instance may be cited. The Cotton Textile Industry suggested to the Board that the Government of India should " subsidize shipping lines to enable them to quote cheap rates to the merchants with a view to increasing the export trade."[14] The Board stated that they were not opposed in principle to the grant of subsidies and recommended that the question of subsidies should be investigated by the Trade Commissioners and the Commercial Mission. We should note here that these recommendations were not accepted by the Government.

From what has been said we come to the following conclusions:—

(1) That in one instance, dumping has been so interpreted as to include sales at a price double than the prevailing price in the country of origin.

(2) Differential duties are not imposed on the imports of the offending country without examining the question in all its aspects.

(3) The mere existence of unfair competition was never considered as sufficient ground for the grant of relief. Other conditions were required to be satisfied. These conditions have not been the same in the case of all industries. In the case of oil industry the Board considered whether the existence of unfair competition had affected the national interests to such an extent as to call for the imposition of protective duties. In the case of coal industry relief was refused on the ground that the industry did not satisfy the conditions laid down under the British Safeguarding of the Industries Act, and the Board did not consider

13 Report of the Tariff Board, Para 76.

14 Report of the Tariff Board, Para 102.

whether the national interests were affected or not. In the case of wire-nail industry relief was refused on the ground that even if relief was given there was little chance of the industry being able to compete with imported nails. In the case of Cotton Textile Industry relief was given, without considering whether the conditions laid down under the British Safeguarding of the Industries Act were satisfied or not and though it was found that the inability of the millowners to withstand foreign competition was not mainly due to unfair competition.

The conditions, that the industries are asked to fulfil, before relief is given, ought to be the same for all industries. In other countries these conditions have been laid down and do not vary. So far this has not been done in India and consequently these conditions vary. Consistent decisions and continuity of policy can never be secured unless these conditions are laid down and be the same for all industries. The Government of India should immediately lay down these conditions and should direct the Tariff Board to see that these conditions are satisfied before they recommend relief.

STABILISING THE POUND

BY

B. N. ADARKAR, B.A. (CANTAB.)

After a protracted period of slump and stagnation the world has at last begun to feel the breath of an oncoming trade revival. Whether the revival of activity in the realm of commerce and industry is due to any artificial impetus generated by external forces or to the powers of resilience inherent within the economic system is an open question. It is, however, assumed in what follows that some amount of conscious and organised endeavour is essential on the part of monetary authorities to speed up the process of recovery. The memories of the World Economic Conference are still fresh in our minds and it is well known that the great gathering of nations broke up on the crucial issue of currency stabilisation. Since then there has been a spate of discussion both in England and America on the problem of determining the equilibrium rate of exchange between the dollar and the pound. The object of the present paper is to examine the theoretical validity of the attempts made by some leading economists to solve this interesting problem in statistical calculations.

In the post-War period of inflation the theory of purchasing power parity associated with the name of Prof. Gustav Cassel appeared for a time to supply a clue to the solution of this problem. The theory, however, never went unchallenged even in the heyday of its popularity and it has lost most of its prestige since the shattering criticism by Mr. Keynes in his *Tract on Monetary Reform*. According to the theory, "The relative exchange values of two currencies will in equilibrium be equal to their relative purchasing powers." If, therefore, the prices in one country are unduly high, imports will be encouraged and exports discouraged so as to bring down the rate of exchange. It is easy to see that such a movement can take place only in the case of commodities which enter or could enter into international trade; consequently it is the price level of such commodities only that is relevant to the determination of the natural rate of exchange. If, however, we focus our attention solely on the prices of the traded goods[1] the purchasing power parity theory

[1] The term "traded goods" means goods entering into international trade, and the term "non-traded goods" means goods which are important only in domestic trade.

is found to be not only a truth but a truism, because the prices of such goods are extremely sensitive and spontaneously adjust themselves to the prevailing rate of exchange so that a comparison based on such prices would prove almost any rate to be the natural rate. However, judging from some of the recent applications of the theory, its exponents appear to believe that between any two dates a change in the natural rate is correlated not only with a relative change in the prices of traded goods but also with that in the prices of non-traded goods.

It would be easy to expose the fallacy in this contention merely by analysing the assumption on which it rests. A failure to appreciate the implications of that assumption has led some eminent thinkers to propose versions of the purchasing power parity theory, which, though claimed to be free from the shortcomings of the original version, are curiously founded precisely on the same assumption. Perhaps the most important of them is the one proposed by the *Economist* in its issues of July 17 and November 18, 1933, and it will be convenient to give a brief explanation of the main substance of it before proceeding with our analysis.

Having dismissed both the wholesale and the cost of living indices as of little relevance to the object in view, the *Economist* proceeds to discover a formula for determining the " equilibrium rate of exchange " between the dollar and the pound. The equilibrium rate is defined as the rate which would put the two countries on a fair competitive footing. " It is consequently the rate which would so adjust the costs of production that the volume of exports of each country would be sufficient and no more than sufficient to bring its balance of payments into equilibrium." If our objective is merely the natural rate (*i.e.*, the rate which would prevail in the absence of artificial influences), there can hardly be a quarrel with this statement. It is the practical method of calculations adopted by the *Economist* that is mainly open to objection. Assuming that costs of production vary with wage rates in the short period the *Economist* proceeds to calculate a " cost of production parity " on the basis of movements in the wage rates with reference to a base period. The argument, it is admitted, evades a number of questions the chief of which relates to capital exports, and since it is impossible to make arbitrary assumptions as to the normal capital exports of a country, a way is found out of the predicament by assuming the base period to be one of equilibrium in this respect as in others.

While Prof. Cassel relies on the parity of internal purchasing powers the *Economist* has pinned its faith in the parity of

costs of production. *Granted that the natural par of exchange between any two countries varies with relative changes in the prices of traded goods between any two dates, such a statement would also apply to the prices of non-traded goods, provided it could be proved that between the given dates the prices of non-traded goods have maintained a constant relation to those of traded goods and that the relation is the same for the two countries concerned.*[2] The difficulty of proving this assumption may be briefly explained as follows. The price level of traded goods is determined by two factors, namely, the supply of such goods and the quantity of money devoted to their purchase in the whole of the world. The price level of non-traded goods is subject to altogether different influences, *viz.*, their supply within a country and the volume of money exchanged against them by the inhabitants of that country. This latter factor depends on the incomes of the inhabitants and assuming the existence of an international standard the incomes in their turn are determined by the efficiency of the country in producing for the international market. It follows from this that a country will have a high level of incomes relatively to other countries if it is able to command in the world market a high price for its exports comparatively to the exports of other countries and if it possesses distinct advantages in producing them. It will be obvious, therefore, that the prices of non-traded goods have a definite relation to those of traded goods, but the relation is not the same for all countries for the simple reason that all countries cannot be equally efficient in producing for the international market. Thus the rate of exchange which measures the parity between the prices of traded goods can by no means be identical with the parity between internal purchasing powers (*i.e.*, the parity between the prices of non-traded goods).

2 The substance of this theorem can be explained by the help of a few algebraic symbols. Let P and 2D be the numbers of pounds and dollars respectively that are required to purchase a given quantity of traded goods. Then $P=2D$; hence the rate of exchange between the pound and the dollar will be 1 : 2. Let A and B measure the amounts of the two currencies respectively that are required to purchase a given quantity of non-traded goods; then the ratio between A and B will also be 1 : 2 only if A and B have the same relation with P and D respectively, *i.e.*, if $P=AX$, D is equal to BX. Suppose for some reason or other there is a fall in both P and D; but the final situation may well be that P remains equal to 2D. But even if P remains equal to 2D, A will not necessarily be equal to 2B, if the fall in D causes a greater fall in B than the fall in P causes in A. While $P=AX$, D may be equal to BY. The fall in the prices of traded goods causes a comparatively great fall in domestic prices and incomes when the goods affected happen to be the chief exports of a country.

The *Economist's* theory, however, escapes this objection. The *Economist* admits that the rate of exchange cannot correspond to the parity between internal prices or costs; that at any particular rate of exchange costs in one country are bound to differ from costs in other countries. But it assumes September, 1929, to be a period of equilibrium between England and the United States, thereby assuming that whatever differences in costs that may have existed on that date were normal differences and proceeds to find out what changes should take place in the rate of exchange in response to the relative movements in wage rates in the two countries with reference to that date. But this is merely a compromise with a fallacy at the expense of truth. It will not stand the test of critical economic analysis, once we grant the possibility that the country's efficiency in producing for the world market may have deteriorated since the base period; in other words, the terms of its trade may have worsened. Suppose that through a fall in the world demand for its exports their prices fall while the prices of its imports remain unchanged. This is what is meant by "an adverse change in the terms of trade." Let us assume that the country is on the gold standard and that there is perfect mobility of factors of production. The fall in the export prices will lead to the result that the country will henceforward be entitled to a smaller quantity of imports in exchange for a given quantity of exports and since the import prices have remained unchanged the necessary reduction in the purchase of imports will have to come about either by a reduction in incomes throughout the country or by a spread of unemployment or by both. The reduction in incomes will not stimulate exports (either in quantity or value) because the reduction is only the natural result of a fall in demand, while imports will have definitely fallen. In the new conditions of equilibrium the same quantity of exports will exchange for a diminished quantity of imports; money incomes will have fallen in this country, but they need not fall in other countries if the goods which have fallen in price do not happen to be their chief exports (and if consequently the terms of their trade have either remained unchanged or changed in their favour). Even though the relation between the levels of money incomes in the two countries has changed there is *ex hypothesi* no change in the rate of exchange between them (the countries being on the gold standard), and there need be none in point of principle, because the fall in the prices of our exports will manifest itself in both countries and the price level of traded goods will fall to the same extent in both at the existing rate.

One can safely conclude therefore that the rate which measures the parity between the prices of traded goods need not be identical with the parity between costs of production.

The substance of the argument remains unchanged even under an independent standard. There will then be no change either in the prices of exports in terms of the currency of that country or in the level of money incomes if the exchange is allowed to fall to a sufficiently low level in response to an adverse change in the terms of trade and the necessary reduction in the purchases of imports will come about through a rise in their prices resulting from the fall in exchange. Under an independent standard the rate of exchange will have to fall whenever the terms of trade become unfavourable even though there is no change in relative costs of production. For an adverse turn in the terms of trade necessarily means a reduction in imports, and this can come about through a fall in exchange, or, if exchange is fixed, through a reduction in purchasing power. Thus the policy of the *Economist* which aims at fixing the rate at the cost of production parity would be positively dangerous to the money incomes in the country and would surely result in the spread of unemployment if wages are sticky.

It is needless to enumerate in detail the various possible causes of a change in the terms of trade. Changes in tariffs and fluctuations in foreign lending are perhaps the most important of them. The rapidity with which foreign lending fluctuates in a short period has become a disturbing factor in international finance of the post-War period. In calculating the equilibrium rate for the dollar and the pound in November, 1933, the *Economist* conveniently ignored the flight of American capital to European countries which was taking place at that time, though it was partially responsible for keeping the dollar sterling exchange at a much lower level than the so-called " equilibrium rate " suggested by the *Economist*. Changes in capital transfers are perfectly natural influences on the rate of exchange and whatever rise or fall they may cause in the rate must not be misunderstood as " overvaluation " or " undervaluation." Still the *Economist* regards the fall in the dollar in this light. It may be noted in this connection that in the past several months the pound has been supported (not " overvalued ") by the way in which India has been using her favourable balance of trade to reduce her external debt.

It has been urged that the equilibrium rate calculated by a comparison of costs of production can legitimately become the

basis of permanent stabilisation after a period of trial. The extreme fatuity of this claim will be apparent on a moment's reflection. At a time when the whole world is suffering from unemployment and the fall in costs of production has nowhere been commensurate with the fall in international prices, a policy which aims merely at following the trend of costs in other countries and going no further will indeed, other things being equal, assure the country of its relative position in the world market and enable it to maintain its percentage quota of international trade, but it can by no means help it to get rid of unemployment so long as the rest of the world remains in the grip of the epidemic. The base period from which movements are measured may be one of full employment, but if our object is to maintain the conditions of full employment what we should be concerned to see is not whether our costs have been keeping step with costs in other countries but whether the fall in our costs has been proportionate to the fall in international prices. Since it is futile to seek to reduce costs beyond a certain limit merely under pressure of unemployment a forward policy of actively stimulating a rise in prices by increasing the loan expenditure of the community may be necessary. The rate of exchange fixed on the basis of costs of production will be a serious obstacle in the way of such a policy. If, however, the exchange is allowed to find its own level when the policy is being pursued it will automatically fall but such a fall need not cause any panic in other countries since it will be accompanied by a rise in the internal price level and as such will not discourage their exports. Recovery of employment and a rise in the national income in any country are bound to have beneficial repercussions on the rest of the world. It is by no magician's trick that economists propose to increase the national income by manipulating the supply of money. A mere increase in the quantity of money can never stimulate the growth of output and income except when it brings about a reduction in real rewards (by raising prices while money rewards are unaltered) and when there are factors of production lying idle which are enabled to be reabsorbed in employment as a result of the reduction. Both, and not either, of these two conditions are necessary for the achievement of the result. If the ideal of the monetary authorities is to secure a condition of full employment for all factors of production and an increase in the national income at a rapid pace, it would not be wise on their part to stabilise the pound at a rate calculated by any of the methods discussed above.

THE CORRELATION BETWEEN ANNUAL INCOME AND FECUNDITY IN A FEW SELECTED VILLAGES OF THE PUNJAB

BY

SHADI LAL BHALLA, M.A.

The writer took up the enquiry to show if there exists any relation between the yearly income and Fecundity. The enquiry is confined to two villages, one in the Hoshiarpur district and the other in the Jullundur district, the former being a Mohammadan, and the latter a Sikh Jat village.

The procedure adopted was to collect statistics of family incomes of all kinds as stated by the zamindar in each family. It is interesting to observe that the figures of total produce as given by the zamindar are not very different from those estimated by the Surveyor (as taken from official records).

Name of crop.	Area of land sown in acres.		Estimated produce per acre in maunds in the survey.	Total estimated produce in maunds.		Total produce as stated by zamindar in maunds.
Wheat ..	67		15	1,005		1,042
Jawar ..	9	Barani	12	108	298	312
	10	Chahi	19	190		
Sugar Cane ..	1	Barani	16	16	60	64
	2	Chahi	22	44		
Sann ..	4		8	32		28
Poppies ..	1		9	9		8·5
Tobacco ..	4		12·5	50		34
Cotton ..	1	Barani	5	5	21	24
	2	Chahi	8	16		
Tilli (oil seed) ..	1		2·5	2.5		3

Statistics of the number of children born in each family were also collected. The number includes still births. Great

F. 8

care was taken to include in the statistics the cases of female infanticide, as well.

The following is an analytical study of the yearly income of some of the families in both the villages.

(1) In Baggawal—

(*i*) Barkat Ali's family:—

(*a*) Yearly income.

Wheat	..	60 maunds, *i.e.*,	Rs.	150
Turi	..	80 „	„	25
Jawar	..	24 „	„	40
Income from mango garden		..	„	10
Fodder sown in 2 acres of land		..	„	48
Yield of milk from one buffalo:—				
6 seers for 6 months				
4 seers for 3 months				
2 seers for 1 month.				
Total amount of milk 94 maunds		..	„	117
Total yearly income	..	..	„	390

(*b*) Total number of children born 9

(*ii*) Hakim Ali Lambardar:—

Wheat	..	60 maunds.	Rs.	150
Turi	..	90 „	„	30
Fodder	..	..	„	6
Raw Sugar	..	48 maunds.	„	60
Wages as a Lambardar		..	„	30
Milk from a buffalo	..	..	„	117
Total yearly income	..	..	„	291

Total number of children born 3

(*iii*) Labhu's family:—

(*a*) His source of income is his earnings as a Veterinary Surgeon, which amounts to about .. .. .. Rs. 701

(*b*) Children born .. .. .. *Nil.*

(*iv*) Prema's family:—

(*a*) Income from Sepi—

Wheat	16 maunds	.. Rs.	40
Cost of meals for 3 months (the time for which he works in the zamindar's fields)	..	.. „	15
Income from weaving	..	.. „	24
Total yearly income	..	.. „	79

(*b*) Total number of children born 6

(*v*) Mihan's family:—

(*a*) Income from Sepi—

Wheat, 20 maunds	..	.. Rs.	50
Day labour	..	.. „	30
Meals ..	..	.. „	15
Total yearly income	..	.. „	95
Total children born	..	..	.. 9

Similarly, below are a few cases showing the yearly income of a zamindar in Uppal Jagir:—

(*i*) Deva Singh's family:—

Income from money-lending		.. Rs.	800
Wheat	180 maunds	.. „	450
Jawar	50 „	.. „	75
Raw Sugar	34 „	.. „	119
Cotton	8 „	.. „	40
Turi	200 „	.. „	50
Chari	5 acres of land	.. „	96
Vegetables grown in his fields		.. „	10
Melons, etc.	..	.. „	8
Total yearly income	..	.. „	1,648

(*b*) Total number of children born 2

(*ii*) Punnu Jat:—

(*a*) His yearly income—

Wheat	320 maunds	..	Rs.	800
Jawar	30 ,,	..	,,	45
Chari ..	..	..	,,	100
Raw Sugar	50 maunds	..	,,	175
Cotton	12 ,,	..	,,	60
Melons ..	..	..	,,	150
Turi ..	..	..	,,	80
Total yearly income	..	..	,,	1,410
Total number of children born	..			.. 4

(*iii*) Rahmat Ironsmith:—

From Sepi—

Wheat	24 maunds	..	Rs.	60
Jawar	24 ,,	..	,,	36
Gur (6 srs. per machine)	90 seers	..	,,	8
Cotton	12 maunds	..	,,	60
Other earning	..	..	,,	50
Total yearly income	..	..	,,	214
Total number of children born	..			.. 10

(*iv*) Dewan's family:—

He is a kamin of the village. His income is from Sepi—

Wheat	18 maunds	..	Rs.	45
Jawar	9 ,,	..	,,	13
Shoemaking	..	..	,,	20
Income in the marriages		..	,,	5
Total yearly income	..	..	,,	83
Total number of children born	..			.. 11

(*v*) Mangu's yearly income from Sepi, etc.:—

Wheat	20 maunds	..	Rs.	50
Jowar	10 ,,	..	,,	15
Income from Shoes	..	..	,,	100
Income from other sources		..	,,	5
Total yearly income	..	..	,,	170
Total number of children born	..			.. 11

(*vi*) **Bhulla's yearly income from Sepi, etc.:—**

Wheat	**10 maunds**	.. Rs.	25	
Income from weaving ..		.. „	24	
Meals ..	..	.. „	15	
Total yearly income ..		.. „	64	
Total number of children born		..	..	2

(*vii*) Jhandu Jhiwar's yearly income:—

Wheat	9 maunds	.. Rs.	22	
Flour	12 „ kacha	.. „	15	
Jowar	9 „	.. „	37	
Marriages, etc.	..	.. „	10	
Milk of the Goats	..	.. „	8	
Total yearly income ..		.. „	92	
Total number of children born		..	..	6

The yearly incomes of all the families in both the villages were summarised and the results tabulated in the following statements.—

The statement showing the relation between yearly income and fertility in Baggawal (District Hoshiarpur):—

Income in Rs. yearly.	Children born.	Income in Rs. yearly.	Children born.	Income in Rs yearly.	Children born
1095	10	279	7	92	6
701	4	264	1	91	1
701	0	262	4	91	4
445	8	262	0	90	4
401	4	254	1	90	9
391	3	254	4	87	6
377	9	210	3	84	6
354	4	197	3	80	6
343	6	195	3	80	1
331	3	187	7	..	..
330	2	156	1	55	2
304	7	142	7	54	4
284	5	127	7	53	3
283	4	102	6	45	6
..	..	..	..	40	6

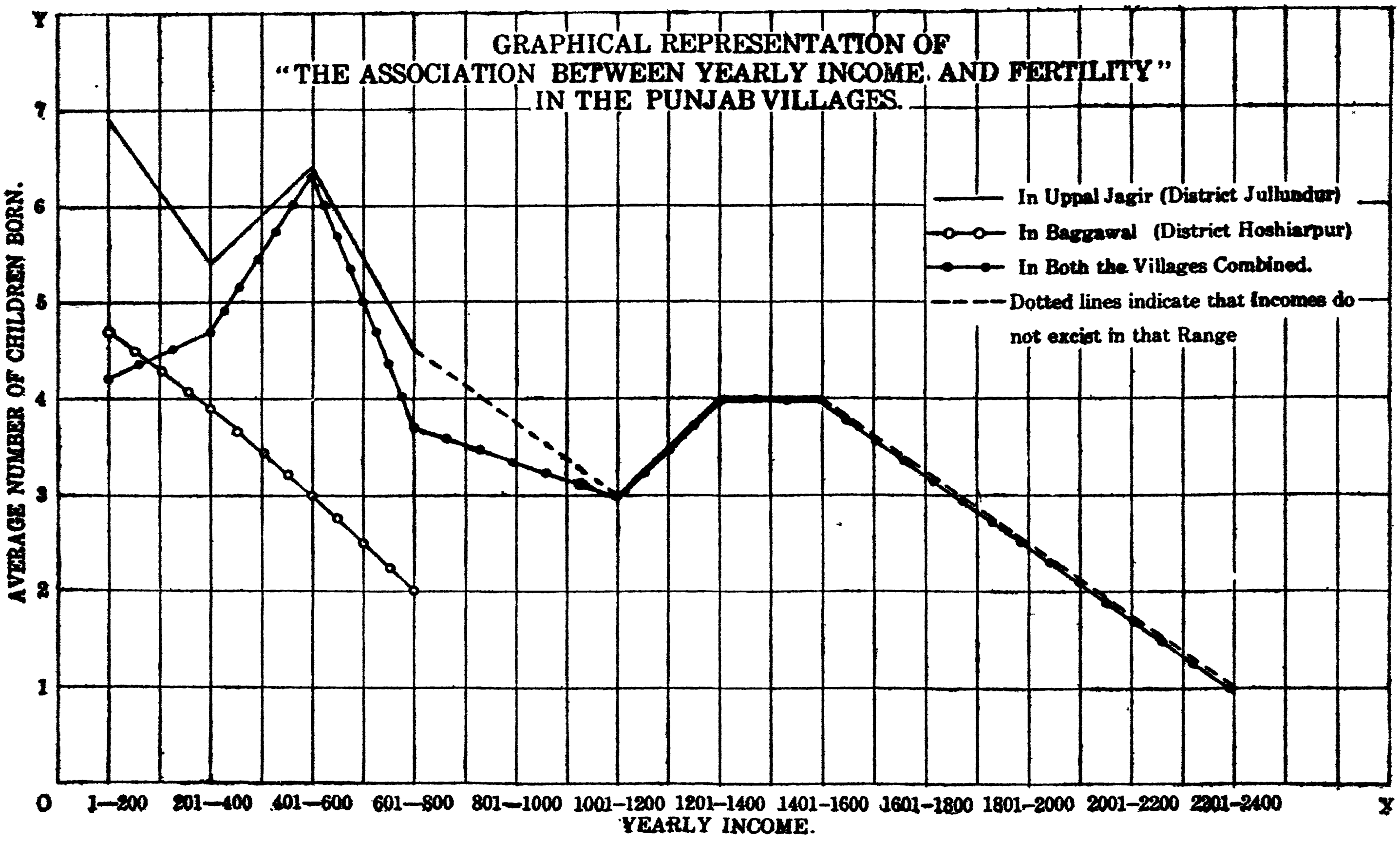
The following statement shows the *general tendency* of the total number of children born as related to the income in Baggawal:—

Total income in Rs. yearly.	Average total number born.
1—200	4·7
201—400	3·9
401—600	3·0
601—800	2·0

The tendency is shown graphically as well.

The following statement shows the relation between Income and Fertility in *Uppal Jagir* (District Jullundur):—

Income in Rs. yearly.	Children born.	Income in Rs. yearly.	Children born.	Income in Rs. yearly.	Children born.
2280	1	292	3	135	10
1648	2	282	2	132	10
1410	4	275	4	126	4
1368	4	251	6	125	6
1200	4	247	2	121	4
1042	2	241	8	120	3
794	5	229	7	106	2
727	6	223	7	102	10
682	1	223	1	93	8
650	6	223	5	83	12
497	8	214	10	83	7
467	5	200	9	90	10
460	7	193	5	78	10
449	10	190	8	78	7
431	5	184	6	78	6
423	5	170	11	78	5
417	5	166	3	78	6
365	6	166	5	65	7
364	7	161	9	58	3
338	3	154	10	37	1
336	8	152	6	36	9
330	4	140	3	27	8
318	8	138	8	24	6


GRAPHICAL REPRESENTATION OF
"THE ASSOCIATION BETWEEN YEARLY INCOME AND FERTILITY"
IN THE PUNJAB VILLAGES.
In Uppal Jagir (District Jullundur)
In Baggawal (District Hoshiarpur)
In Both the Villages Combined.
Dotted lines indicate that incomes do not excist in that Range
AVERAGE NUMBER OF CHILDREN BORN.
Y
7
6
5
4
3
2
1
O
1—200
201—400
401—600
601—800
801—1000
1001–1200
1201–1400
1401–1600
1601–1800
1801–2000
2001–2200
2201–2400
X
YEARLY INCOME.

The following statement shows the general tendency of the total number of children born as related to the incomes in Uppal Jagir:—

Total income in Rs. yearly.	Average total number born.
1—200	6·9
201—400	5·4
401—600	6·4
601—800	4·5
801—1000	..
1001—1200	3·0
1201—1400	4·0
1401—1600	4·0
1601—1800	..
1801—2000	..
2001—2200	..
2201—2400	1·0

The following statement shows the general tendency of the total number of children born as related to the incomes in Uppan Jagir and Baggawal, combined:—

Total income in Rs. yearly.	Average total number born.
1—200	4·2
201—400	4·7
401—600	6·3
601—800	3·7
801—1,000	..
1,001—1,200	3·0
1,201—1,400	4·0
1,401—1,600	4·0
1,601—1,800	..
1,801—2,000	..
2,001—2,200	..
2,201—2,400	1·0

The tendencies are shown graphically as well.

It is of course impossible to generalise from the results of a study embracing two villages—we need many more such studies to be able to do it—but in these villages the tendency for the fecundity to diminish with an increase in income is obvious.

COTTON MARKETING

The Other Side of the Shield

(R. G. SARAIYA,* B.A., B.Sc., J.P.)

The Indian Journal of Economics must be complimented on publishing articles on current problems like " Cotton Marketing." The publication of such articles would do more than anything else to remove the prejudice in the mind of the mere layman or the mere merchant, who is not a trained economist, that the Indian Economic Association is only concerned with the study of problems of what might be called academic interest. But the publication of current problems is bound to raise controversial issues, and the Indian Journal of Economics should be prepared to publish both sides of the shield.

It is with the object of presenting the other side of the shield that I submit the following article, as a complement to the article on " Cotton Marketing " by Mr. P. Satyanandam, appearing in your issue of January, 1935. In the first place, it must be pointed out that most of the articles based on popular criticism and current literature in the press on this subject, tend to give a wrong perspective inasmuch as they give undue prominence to criticism made by a section of noisy or articulate spinners. If a man from the moon who is not conversant with city life, as it is, were to read of the robberies, murder trials, etc., which would be given prominence in press reports of a city like Madras, he would be under an altogether mistaken notion about the safety and tranquillity of the city. But the average citizen knows what small part is played by the robberies and felonies, reported in the press, in the daily life of a city like Madras. No one proposes to defend robberies. But one must have a sense of proportion. Similarly, if one were to read all about the 'malpractices' complained of by European buyers against Indian cotton, one would have a mistaken notion about the quality, character and condition of Indian cotton shipments. Lacs of bales of Indian cotton are exported every year and further lacs

* Mr. R. G. Saraiya has considerable experience of the cotton trade; and is in a position to speak with first-hand knowledge and authority on the subject. Mr. Saraiya is connected with the well-known cotton firm of Messrs. Narandas Rajaram & Co., Bombay. He also takes an active part in the work of the East India Cotton Association and the Indian Central Cotton Committee.

are used in India, and no complaints are made. But occasionally, complaints are made and ventilated in the press. On the other hand, no one writes to the press about the satisfactory shipments that are received. It is, therefore, necessary not to give undue importance to the criticism which emanates from a section of spinners using Indian cotton. Otherwise, publications like the article in question, would do more harm than good, by running down our own product, *viz.*, our own cotton, in the eyes of the world.

I shall first deal with the more general aspects of Mr. Satyanandam's article. "The story of complaints is a question of improving the ethics of the trade" says he. This is a very serious charge, and it has not been made so far by any country in the world, be they Indian, English, European or Japanese. It is based on altogether false premises.

> "It is pointed out by a Lancashire spinner that if he wants to buy 100 bales of 'strict middling' from an American seller, he will sell it against his type, deliver to the buyer what he has bought. But his method of buying from the sellers of Indian cotton is different. He may buy a thousand bales of, say, 'strict middling' and then he makes his selection from that; he may have fifty per cent of 'strict middling' in his thousand bales; he may have twenty-five per cent of 'fully good middling' and twenty-five per cent of something below; so that he gets a premium on anything that is above his purchase, and, of course, he gets his discount on the other."

This is altogether incorrect. Indian cotton is sold in even-running lots of 50 or 100 bales, whereas American cotton varies from bale to bale. This is proved by the fact that in disputes regarding quality, it is only necessary to survey 5, or at the most 10 per cent, of the bales in Indian cotton, whereas in the case of American cotton, every single bale is surveyed. The Lancashire spinner is the most fastidious customer in the world, and protects himself against tenders of a lower quality of cotton by what is known as the "Rejection Clause," *i.e.*, he reserves to himself the option of rejecting any bales which are 10 or 15 points (*i.e.*, about Rs. 5 to Rs. 7 per candy of 784 lbs.) lower than the type or standard, and of then buying in the market, on account of the seller, or of 'invoicing back' his purchase to the seller, at the full market price of the cotton on the day his ship-

ment (or part of it) was rejected. A shipper stands to lose heavily if his cotton is rejected. A spinner here and there may have had an unfortunate experience. But such experiences are bound to be the lot of every buyer, of every commodity. Indian spinners, who bought American cotton, have also complained of 'false packing' and of uneven lots, varying from 'strict middling' to 'low middling.' But they have not complained of the "ethics of the trade" in America. It is very wrong to condemn a class or a nation or a commodity from an individual 'black sheep.'

Mr. Satyanandam talks of the necessity for the grading of Indian cotton. These grades already exist. In Bombay, we have such grades as "Fine," "Fully-good," "Superfine," etc., and tens of thousands of bales are sold to Europe and Japan on grades. There are enormous shipments of "Fine Bengal" to Italy, "Superfine Sind" to Germany, and "Fine Oomras" to France, to say nothing of the still larger quantity of "Fine Berars" bought by Japan. And a definite step forward has been taken by the Indian Central Cotton Committee in trying to establish universal standards for Indian cotton by bringing the standards used in Bombay and Karachi into line, with a view to their ultimate acceptance in all consuming markets like Liverpool, Bremen, Milan, etc. It may here be pointed out that while Lancashire is complaining and arguing, Japan is buying large quantities of Indian cotton, on the standards set up by the East India Cotton Association Ltd., like "Fine Broach" and "Fine Oomra." It is a tribute both to the adaptability of the Japanese and the working of the East India Cotton Association, that these standards in India have been accepted by the Japanese spinners. In reading, therefore, of the complaints of Lancashire, one must not overlook the smoother working of exports of a million-and-a-half bales to Japan. A question of perspective, once more.

By the way, there is some confusion of thought in referring to "Dharwar," "Broach" and "Cambodia" as grades. They are geographical names, denoting certain growths. These growths are then graded, *e.g.*, "Superfine" Broach, "Fine Broach," "Fully-good" Broach and so on. As these grades already exist, there is material at hand for a "Standard Deferred Delivery Contract." In fact, on the standards established in Bombay, thousands of Delivery Contracts are made every year, and the establishment of such contracts on Indian cotton in Lancashire is merely a matter of time. Lancashire must attract sufficient Indian cotton to make it worth the while of shippers of Indian cotton, or of dealers in Lancashire, to get stocks of Indian cotton

with a view to selling it on Deferred Delivery Contracts, or any other form of contract that the spinners there want.

Considerable importance is attached to a complaint from Berlin regarding the marking of bales of Indian cotton. This complaint was made before the International Cotton Committee, which was in session in Berlin, by, it is understood, a single German spinner. It must be pointed out that there is no representative of Indian shippers or spinners on the International Cotton Committee. What advantage did the spinner in Germany expect to obtain by finding out the name of the ginnery or press at which his purchase of cotton was pressed? In fact, there is no parallel in the U.S.A. to the Indian legislation which requires that every bale of cotton shall be marked with the number of the Press and the number of the year on the hessian covering the bale. Originally the Ginning and Pressing Factories Act laid down that the number of the Press and the number of the year of growth should be punched on the hoops of the bales; in actual practice, this law was found to benefit the buyers who wanted some excuse or other to wriggle out of their Contracts in a weak market, and it was found very difficult to practically enforce this legislation over the large number of presses scattered all over India, where conditions of labour, education, etc., were not so perfect as in highly developed manufacturing centres like Lancashire, or Germany. The legislation, therefore, had soon to be revised and even the present system of marking the number of the Press and the year of pressing on the hessian of the bales is, it must be said, an advance over the practice ruling in any other part of the world. If American cotton has not suffered owing to the absence of a rigorous system of marking of bales, why is it expected that the absence of such marks on bales of Indian cotton will put Indian cotton to a disadvantage? After all, what the buyer wants is cotton which is equal to the sample and which can be used for the purpose for which he has bought it. He does not want to buy marks and if he cannot judge cotton from the actual deliveries he gets and wants to be guided by press marks and such other extraneous evidence, he will never make a success of the cotton spinning industry.

The author of the article proceeds to lay down the requirements of the United Kingdom and the Continent in regard to Indian cotton and says that the style required is white or creamy in colour, good grade, staple 15/16" to 1·1/8" and so on. He says that attention should be concentrated on the cultivation of such varieties of cotton as can be substituted in European mills for cotton from other countries, especially from America. It is

hardly correct to lay down any rules in this connection because Indian cotton is grown with the object of securing the maximum monetary return to the grower, in which, over and above the staple length, such factors as the yield per acre and the ginning yield play an important part. If a long staple variety is a low yielder or a poor ginner or is unsuitable for the climate or the soil conditions of a certain tract, then, evidently, the substitution of long staple cotton for the hardy indigenous short staple variety in that particular tract would entail financial loss to the agriculturist. Further if India were to produce, say, 6 million bales of cotton similar to the American bread-and-butter cotton, the world price of such cotton would decline to such an extent as to make cotton-growing an unprofitable venture. In fact, India enjoys a monopoly of special short-staple varieties like Sind, Comillas and Bengals, for which there is a definite world demand, and she would be very ill-advised to abandon the cultivation of such varieties. Where, however, conditions are favourable for the substitution of short-staple varieties by long-staple varieties attempts are and must be made to bring it about.

It is said that in Berars and the Central Provinces, there has been a large increase in the amount of short-staple cotton grown. This is only partially true. Verum 262 is now grown in the Berars and the Central Provinces, and Banilla cotton in Khandesh, both of which possess longer staple than that shown by the original indigenous varieties. It is, however, an open question whether Verum 262 is the more suitable variety for the Berars and the Central Provinces. Time will show.

Reference is made to the necessity of "clean picking." This is very desirable from the spinners' point of view. But does the farmer get the return for clean picking? If it costs Rs. 5 per candy more for clean picking—the cost representing increased labour charges, slower picking and a slightly lower yield per acre of kapas—and the farmer only gets, say, Rs. 3 more for the extra outlay, where is the benefit? The spinner can very well instal cleaning machinery and take into account the loss percentage due to leaf, etc., in making his purchases.

Reference is again made to the evil of "mixing" of longer staple and short-staple varieties, particularly in the Punjab. This question is before all interested in the cotton trade for the last quarter of a century and still no practical remedies have been possible to be devised to check this effectively. The problem bristles with a host of practical difficulties, best realised by those who are intimately connected with the trade. It is said "If staples of different lengths could be kept separate it would tend

to improve the value of each staple and ultimately the farmer would reap a greater reward, where his care succeeded in promoting a better staple." In fact, mixing takes place because the mixed cotton fetches a better price than the two varieties marketed separately. There is a definite demand for mixed Punjab-American types, not only from Japan but also from Lancashire. It is found that if, for example, Panjab-Desi sells at Rs. 150 and Punjab-American pure at Rs. 250, the mixture (say 50-50) sells, not at Rs. 200 or less but at Rs. 225 or more. The buyer wants the mixed cotton, as it presumably serves a definite purpose, say, for a count lower than the counts which be spun from the longer staple cotton. The seller, *i.e.*, the exporter, the middleman, the factory-owner and the farmer—all along the line—gives the mixture because it pays him better to do so. In the long run, this is, I believe, against the best interest of the country, as the practice of mixing is bound to bring down the quality and character of the entire crop of the areas from which the cotton is mixed. But a quarter century of legislation and propaganda has not succeeded in checking the practice of mixing effectively. Practical suggestions would therefore be more valuable than mere criticism.

The question of saw-ginning *vs.* roller-ginning for Indian cotton is before the Indian Central Cotton Committee. The statement on page 337 that " American is however principally roller-ginned " is incorrect. American cotton is saw-ginned, while practically the whole of the Indian crop is roller-ginned. Complaints of defective ginning of Indian cotton are rare. It is believed that saw-ginning is too drastic a process for the softer fibres of Indian cotton, and it is quite possible that what is best for American cotton may not be the best for Indian cotton. I wonder where Mr. Littlewood's experiments establishing the superiority of saw gins are published and whether his experiments cover the whole range of Indian cotton. So far as I know, there is no experimental evidence to establish the necessity of adopting saw gins in India. That Lancashire is accustomed to use saw-ginned American cotton is by itself so sufficient a reason to adopt saw-ginning in India. Japan uses both American and Indian cotton with frank impartiality. She prefers what is relatively cheaper and has adapted her machinery to carry out the substitution of one growth by the other to the extent of lacs of bales. She has never declared that Indian cotton should be saw-ginned.

The author again reverts to the question of mixing. He says that the Lancashire spinner knows what he buys from

America but does not know what he is getting when he buys Indian cotton. Types of mixed Punjab-American cotton are now sold in Liverpool definitely described as "mixed," and the Lancashire spinner has no reason to complain if he gets cotton similar to what he has bought. With few exceptions, he does *not* complain either.

Complaint is made against the high density of Indian cotton. Egyptian cotton is pressed in hydraulic presses to a still higher density and the biggest customer of Egyptian cotton is Lancashire. Has the Lancashire spinner complained of the high density of Egyptian bales? Here again, it is a question of the relative return to the grower. Railway and steamer freights are charged on the basis of space occupied in terms of cubic feet. The pressing of Indian cotton in lighter density bales would mean an enormous increase in the cost of transport, which obviously seems to have been overlooked. It is not correct to suggest that Indian cotton is pressed in 500 lb. bales. Over 95 per cent of the crop is pressed into 400 lb. bales. The 500 lb. bale is an anachronism which survives possibly at one or two places in South India.

Finally there is the complaint against "damping." Unfortunately it is true that there is excessive damping of cotton in the Central Provinces and Berars. But Indian cotton, as a whole, is not excessively damped, and complaints on this score are therefore few. The question is again complicated by the fact that a certain amount of moisture in cotton is considered necessary to show it to the best advantage in staple length and to press it to the correct density. It is well known that Egyptian cotton is damped before pressing and certain standards of moisture are laid down. For Chinese cotton too there are similar standards. Both the Central Cotton Committee and the East India Cotton Association are contemplating steps to prevent undue watering and it is hoped that there will be no room for this complaint before long.

So far we have dealt with the complaints against Indian cotton. We have seen that the majority of these are based on misconceptions. Some of them unfortunately are correct. But it is necessary not to attach undue importance to complaints or to ventilate them so as to advertise only our shortcomings.

It is not equally well known that Indian cotton is better packed than American cotton. One has only to go to the docks of an importing port like Liverpool and look at the bedraggled appearance of a lot of inadequately-covered American cotton, with cotton dropping out,—and compare it with the neater appearance of more uniformly-packed, well-covered bales of

Indian cotton. Leading American shippers, like Anderson Clayton & Co., have recognised this and evolved the round bale, which is an improvement on the standard American bale. But the fact persists that the greater proportion of American cotton is packed in so-called standard bales which leave much to be desired. Indian cotton is sold in even-running lots, whereas American cotton is rarely made into even-running lots, the quality varying from bale to bale.

Finally, the article on ' Cotton Marketing ' in your issue of January, 1935, is apparently based on the criticism emanating from Lancashire against Indian cotton. This was natural at a time when Lancashire was called to take more Indian cotton. Quite a large proportion of Lancashire criticism is due to ignorance about Indian cotton. While India must welcome the attempts of Lancashire to take more Indian cotton and do her best to suit all reasonable Lancashire requirements, the Lancashire spinner has to learn much about Indian cotton and has particularly to learn the adaptability of his Japanese rival. And in catering to Lancashire requirements, India must not lose sight of her more important customers, who are first the Indian Mills and next the Japanese spinners.

ECONOMIC PLANNING FOR INDIA*

D. G. KARVE

War-time disasters and post-war fluctuations have combined to establish the truth that planning is more characteristically a human trait than not planning. With the exit of *Laissez Faire* from text-books and despatches planning is fast becoming the fashion of the day. Past experience of the *Laissez Faire* doctrine suggests, however, that there is every danger of the slogan being imperfectly comprehended and indiscriminately applied. We must in the first place distinguish between planning as a principle and method on the one hand and planned economy as a goal of social policy on the other. Outside Soviet Russia no attempt has yet been made to pull down the whole structure of society in which the profit motive and the price mechanism serve as the regulators of the economic system, and to replace it by a new organisation in which social goals are planned by social agency and are executed by social direction.

The extent to which private profit and price mechanism have been removed from the Russian economic structure is a matter on which complete and reliable information is not available. But it is certain that the technical goal that the Soviet authorities had set to themselves, namely, the industrialisation of the nation in the shortest possible time, has been considerably accomplished. Agricultural planning, which entailed the setting up of large-sized, collective and modernised farms, has been found both necessary and difficult. The outside world is still watching these experiments and their reactions on Russian life as a whole. From downright denunciation the mood of critics has changed to one of serious study and chastened judgment. It appears to be the view of a very numerous group of students in all countries that though the complete annihilation of the profit motive and of the operation of price mechanism is not economically possible the regulation of both these in the interest of social stability and progress is justifiable and necessary.

* This paper was read and discussed at the last Conference of the Indian Economic Association held at Patna but it was inadvertently not included in the Conference issue. We publish it in the present number.

—MG. ED.

It is here that planning ceases to be an exclusive feature of planned economy and assumes universal significance. The trust in private profit and *Laissez Faire* having been shaken it becomes necessary to watch the operation of these with a view to ascertain whether they are conducive to social interests, and wherever they appear to fail in this purpose to supersede and supplement their action by social planning. Such an attitude implies that the community has well defined objectives of social life, that it has the means to know whether these objectives are being actually promoted within the framework of individualistic economy, and that it has the institutional equipment to plan and carry out such ends as are unattainable by private agency. Considerable progress along these lines has latterly been made in many countries. The old policy of protective tariffs is integrated in a comprehensive scheme aiming at national self-sufficiency. The currency puritanism of old days has been transformed into a deliberate control of currency, credit and the price level. Prices of commodities and services are being influenced by direct state regulation. The scheme of distribution, already assailed by the socialistic trends in national finance, has begun to attract the unfriendly notice of the planner.

The experience hitherto gained has suggested several grounds for caution. Governments are at best imperfect instruments for the formulation of social ends. Sectional interests are able to impose themselves upon the public authorities as national interests and it is long before their pretensions are exposed. Governments themselves have often to proceed on the most flimsy data and the results of their action often belie the expectations of its authors. Last, but not least, the easy results obtained by the exercise of social control act as heady wine to some governments, and without a formal abolition of the individualistic régime a pseudo-collectivist régime is set up. These corporate and totalitarian states have not as yet amassed, like the Soviet, enough experience to enable us to take stock of the lasting merits of their experiments. That they are more efficient and successful instruments of governmental action has been proved, though this is no new lesson for students of despotic constitutions. The ultimate reactions of these organised national economies on the cultural and economic life of their own members and on the world situation are even less reassuring.

Indian economists might justifiably claim that neither by their traditions nor by their experience have they been led to set much reliance in the pretensions of individualistic profit economy and of the policy of *Laissez Faire* based upon it. On

the other hand they have not run down the value of individual betterment as a spur to progress. They have urged the cause of cultural reform and social freedom with the same energy with which they have criticised the Government policy of inaction and indifference. Only the Government of the country under the influence of their mentors in England have long remained impervious to criticisms, suggestions and appeals.

It is, therefore, a matter for some satisfaction that during the last year India has appreciably moved nearer to the principle of planning. Beginning from the resolution moved by the Non-official Europeans' Group in the Legislative Assembly, during the last budget session, regarding the regulation of our foreign commerce, the Central Government has been active in talking a good deal, and practising a little bit, of planning. Conferences have been held with the representatives of the Provincial Governments and the parties specially interested in the respective problems for such a varied list of purposes as Sugar Restriction, Rail-Road Competition, Agricultural Relief and the Regulation of Crops. The initial obstacle in the way of all useful planning, *viz.*, that of an utter absence of reliable statistical information was attempted to be minimised by the quesion being referred to the two British experts, brought out during the last cold weather to advise the Government of India. The report of Dr. Bowley and Mr. Robertson is far less ambitious than what would have been justified under the circumstances. But even the adoption of their recommendations will mark a distinct approach on the part of the Government of India towards putting together the means that are indispensable for the adoption of planned policies. The Resolution that was issued by the Finance Department of the Government of India on the eve of the departure from India of Sir George Schuster, and the latter's explanatory speech on planned economy and national self-sufficiency at a Bombay gathering, must be read as marking an orientation in the economic policy of the Indian Government.

Expert Indian opinion has so long and so persistently criticised the *non-possumus* attitude of the Indian Government that these signs of a radical change in their economic outlook must be wholeheartedly welcomed. In view, however, of the several undesirable tendencies evinced by the new policy in other countries timely attention must be called to several important features of planning in India. In the legislatures of India, as at present constituted, interests rather than opinions find a representation. Hence the chances of powerful sections of the community getting the state policy and machinery under their

control are greater in India than in purely democratic countries. Already in the sphere of protective tariffs such sectional influences have made their appearance. The fact that the present Government of India does not depend for its existence on the votes of a majority of the legislature, and that it derives its support from the British Parliament, has enabled it to resist the pressure of Indian sectional interests in a few cases. In this respect the position is likely to be worse under the new constitution, unless a discriminating public opinion is created in the meanwhile.

This recalls another important limitation on planning in India. Let us take the case of Imperial Preference which is but an item in the wider scheme of Empire planning embracing all features of economic life such as tariffs, industry, currency and banking. Now Imperial Preference may be all good or all evil, or it may be, as it probably is, partly good and partly bad. But it is clear that politically and constitutionally the conditions do not exist for India as a whole, not for a few powerful interests in it, to entertain the proposal as a businesslike economic and political deal. So long as this is not assured, in other words, so long as a constitutional democracy speaking in the name of the general body of citizens is not set up in India, there are grave dangers of the new economic policy being perverted to sectional and anti-national ends. This prospect is real and imminent as the Ottawa Agreement has already proved. Much as we welcome the repudiation by our Government of the thrice cursed *Laissez Faire*, in the absence of a democratic Indian constitution we are not without misgivings as to the actual results of the new policy.

This feeling of nervousness is bound to be strengthened if we take into account the fact that the Government of India is devoid of a suitable and competent machinery to undertake the steady pursuit of planned economic action on a large scale, even if it genuinely desires to do so. First and foremost, there are not the intelligence services which Indian expert opinion has called for a long while and which have been favoured by several Royal Commissions and Committees during the last few years. The recommendations of Dr. Bowley and Mr. Robertson are by no means ambitious. But there is reason to believe that even these will be honoured only by a place in the Secretariat pigeon-holes of the Central Government. The Indian experts who might be credited with the possession of a more direct interest in and familiarity with the Indian economic situation are *persona non-grata* with the Government of India. In this respect there is

a definite retrogression in Government policy during the last few years. For a short period after the inauguration of the Montagu-Chelmsford Reforms it seemed as though the Indian Economists and experts were gradually to come into their own. The Fiscal, Currency and Agricultural Commissions had prominent Indian members among their personnel and the higher ranks in several technical departments were Indianised in this period.

During the last few years there has been a recrudescence of the craze for foreign experts on committees and in directive posts which bodes ill for the wise inception and beneficent execution of planned economy. How very wide can be the gulf that separates an Indian expert bent on solving a pressing and vital economic problem and an unsympathetic and indifferent foreign 'expert' is vividly illustrated by the rôle played by the specially invited 'foreign experts' who assisted the Central Banking Enquiry Committee. The recent appointment of an outsider to the post of the All-India Marketing Officer reveals the persistence of the same obsession for foreign personnel from which the Government of India, itself predominantly foreign in composition, suffers. So long as this trait of the constitution and policy of the Indian Governments is unremoved we need not hope for much in the way of national economic planning. We would rather feel that as a rule so long as our constitution is not sufficiently democratised, so long as the Indian authorities have not secured the maximum independence from external interference and so long as the predominance of Indian interests and agency in the high councils of the nation is not assured, we will be well advised in strictly limiting our support of planning to a few well defined and widely accepted purposes.

There are a couple of other structural drawbacks to which attention must be called in the present place. In the Central and the Provincial Cabinets in India economic matters of first rate national importance such as Commerce, Transport, Agriculture, Labour have not received separate recognition. And yet it is certain that no far-reaching state activity by way of initiation, guidance or direction is possible without a further differentiation, specialisation and strengthening of the governmental machinery. This strengthening is needed in the legislative as well as the executive branches of the Government. We would be benefiting by the experience of other nations if we provide for a National Economic Council in India at a very early stage of our industrialisation. It might even be desirable to secure for economic experts a direct representation in the legislatures as

labour, capital and other sectional interests have already been represented. There must be somebody who will supply to the members of legislative bodies disinterested expert advice on economic issues. In view of the fact that much of the legislation coming before our legislatures is economic in its significance such a provision would be highly desirable. It might be further suggested in this connection that these experts need not be permanent members like the other representatives, but they should be nominated for each particular proposal. The present constitution in the provinces makes provision for such appointments, but the scope and the application of this principle must be further extended.

Another matter that has not received the consideration that it deserves from the standpoint of an efficient ordering of the nation's economic policy is the fast growing separatist and restive tendencies among the provinces. For political reasons Government and many of the Indian politicians welcome, and in fact promote, this tendency. It must be admitted that the future constitution of our country will have to be one in which the provinces will possess a substantial latitude in shaping their policies to suit local needs and will have an almost complete freedom in execution of measures. Each province might have a provincial plan to cover strictly local matters. It must, however, be remembered that our present provinces, though they have latterly gained some political self-consciousness, are in no real sense economic units. For economic planning to be comprehensive and effective, it must be put into force by an All-India agency. Initiation, formulation, guidance and supervision will have to be in many cases centralised. The funds of the Central Government will have to be used on a large scale for the successful working of many plans. These developments sc vital and necessary in the economic sphere appear to be at variance with the prevailing school of thought in Indian politics. Unless a reconciliation between the two views is found by having a federation with a strong and actively functioning central government the chances of planned economic progress in India are very limited.

It is necessary at this stage to draw pointed attention to an internal defect of Indian economy. In so far as planning involves a deliberate regulation of economic and social forces in the expectation of a certain sequence of results there is a real uncertainty involved in Indian planning. The conditions of economic and social evolution in different parts of the country vary materially. The existence of an international market for certain articles of export is compatible with the existence of a large num-

ber of almost isolated internal markets for the same commodities. The mobility of labour, nowhere as universal as that of capital, is particularly undeveloped in India. The development of transport services and the inevitable influence of several liberalising forces are latterly combining to improve the sensitiveness of the Indian economic system in these respects. Banking is undeveloped and in many respects even the introduction of an exchange economy is by no means complete. Production, particularly agricultural production, is carried on in numberless, unorganised and fractional units, without any steady relation to market conditions. For planning to be successful it is necessary not only that it should be based on adequate and reliable data, that it should be conceived in broad national interests, and that it should be put into effect through suitably organised agencies with the active cooperation of the people, but it is also essential that the economic system of the country should be sufficiently sensitive to external, coordinated and uniform stimuli. Whether in the field of production, or of exchange and distribution the necessary sensitiveness of the economic system is inadequately secured in India. This creates a fundamental limitation on planning which must be allowed for in all our schemes.

An attempt has been made in this paper to draw pointed attention to a few of the more important features and difficulties of planning in general and of planning in India in particular. The political, administrative and economic difficulties set forth above threaten to make the practical adoption of a full-fledged scheme of planning in India only a remote possibility. As, however, things are latterly moving very fast for this country there might be some interest attaching to a brief mention of what appear to be the most suitable objectives and methods of economic planning in India. We must aim in India at a much more balanced economy than our present one. By the careful selection and assiduous development of manufacturing and commercial pursuits the needed balance must be imparted to Indian economy. We are genuinely apprehensive of the economic and political dangers of excessive or fitful protection, and for this reason as a general rule we would favour state regulation, if not actual state ownership, of protected industries. A scrupulous regard for the interests of labour and consumers, and the establishment of medium sized industries are worthy objects of concern for the economic planner in India. Indianisation of banking and insurance, the promotion of internal migrations and external colonisation, the conclusion of trade agreements with all friendly countries on purely economic grounds and on as unrestricted a

basis as possible, the greater protection of tenants, particularly in the U.P. and the Rayatwari provinces, the adoption of organised poor relief and other measures based on the principle of social solidarity, the gradual introduction of collective insurance among our industrial population and the general replacement of unregulated moneylenders by organised banking are a few of the most pressing objects of national economy which a comprehensive economic plan ought to attempt.

Agriculture is and will for all appreciable future remain the principal industry of the people of India. No more worthy object can be prescribed as the goal of Indian economic policy than the positive and all-sided improvement of Indian agriculture. Revenue, indebtedness, marketing and other pressing rural problems must be solved in a spirit of broad statesmanship instead of their being tinkered at in red-tape fashion as has been too frequently the case in the past. Above all the atmosphere in the villages, and in fact in the whole country, must be so changed as to render effective the steps at constructive reform taken by government and other organised agencies. The danger of a wise plan being foundered on the rocks of indifference, and even of ignorant opposition must be avoided. This danger is very real in India, where the progressive mentality and civic sense are ill-developed even in the urban areas and among the educated classes. In its widest significance economic planning will have to be based on social and cultural progressiveness of which there are welcome signs during the last few decades, but which have not as yet gathered enough momentum to constitute a strong movement for national reformation.

Industrialisation, and generally a rational and progressive economic system, involve a more fundamental reform than merely the passing of a law or setting up of an organisation. The nation's mind and morals, its psychology and scale of values, have to be altered so as to be conducive to the attainment of the new ends. If, therefore, the nation's best minds desire to have a more industrialised and progressive economic structure they must set seriously to the task of creating the necessary mentality and urge among their countrymen. This is a less inspiring task than the more showy side of public activity, and it appears that a good deal of further work in this direction will have to be done. It is on the successful inculcation of the progressive, rational and planned mentality among individuals that the chances of success that lie before social planning depend. There are important sections in the Indian society who are political and social reactionaries. How these will range themselves under the new

political constitution is as yet uncertain. India has been very fortunate in the moral and intellectual eminence of its best leaders. But unhappily their number either in politics, or in industry, has been too small to produce a lasting and widespread influence. In view of these uncertain factors, and in view of the inherent difficulties of planning in India outlined in the course of this paper high hopes about an immediate or early success of the new policy appear to be unfounded. If, however, our objectives are selected with discrimination and an honest effort is made to apply rational methods of planning through suitable agencies to promote the interests of the nation as a whole, an appreciable change for the better might be produced in a generation's period.

THE PROBLEM OF UNEMPLOYMENT OF THE EDUCATED CLASSES IN THE UNITED PROVINCES

BY

NAWAL KISHORE CHADDHA, M.A., LL.B.,

Lecturer in Economics, Bareilly College, Bareilly.

Unemployment does not include all the idleness of our educated youngmen, but only that part of it which is involuntary. The idleness of those, therefore, who are idle, not from necessity, but from choice is excluded. Unemployment, besides meaning loss of remuneration to the unemployed, threatens to inflict permanent injury on their character. Pigou observes: " The habit of regular work may be lost, and self-respect and self-confidence destroyed, so that, when opportunity for work does come, the man, once merely unemployed, may be found to have become unemployable." The terrible strain that lack of work imposes upon the morale of the unemployed, is brought out with great force in an American inquiry: " If a period of enforced idleness were a season of recuperation and rest, there would be a good side to lack of employment. But enforced idleness does not bring recuperation and rest. The search for labour is much more fatiguing than labour itself. An applicant sitting in one of the Charity Offices waiting for the arrival of the agent, related his experiences while trying to get work. He would rise at five o'clock in the morning and walk three or four miles to some distant point where he had heard work could be had. He went early so as to be ahead of others, and he walked because he could not afford to pay car fare. Disappointed in securing a job at the first place, he would tramp to another place miles away, only to meet with disappointment again . . . . As the man told his story, he drove home the truth that lack of employment means far more than simply a loss in dollars and cents; it means a drain upon the vital forces, that cannot be measured in terms of money." Yet another element of evil remains. The supply of educated youths at the present time being very much in excess of the demand has resulted in many of them accepting absurdly low salaries, which, besides adversely affecting their standard of comfort unfortunately tempts the employers to substitute for highly-paid hands in their service those—and their number is legion—who are ready to

accept much lower terms. The result of this is that there is a haunting sense of insecurity and danger, which is in itself a serious evil, among those who are already employed. Professor Leroy Beaulieu has rightly remarked that "It is not the insufficiency of pay which constitutes, in general and apart from exceptional cases, the social malady of to-day, but the precariousness of employment."

The increasingly large number of educated unemployed in India has for some time been attracting the attention of the authorities and the public alike. It is an all-India poblem. The principal features of the problem are common to the whole of India, though there may be minor differences here and there. The initiative has, however, been taken at the instance of some of the provincial legislatures by a few provincial and State Governments. Because of the very simple reason that the resources of the provinces are limited, the root causes of the problem have remained unprobed, and no effective remedies have been up till now suggested. The problem is undoubtedly baffling of solution, but if it can be effectively dealt with, it can only be by the action of the Central Government. The attempt to solve the problem on a provincial basis has so far been a failure. The scope of provincial enquiries has been narrow. The bearings of this limited problem upon the larger economic problem of the country have remained unattended to. The Central Government is the largest employer of labour in India—industrial as well as non-industrial, skilled as well as non-skilled. And whether the problem is to be solved by creating fresh jobs, or starting new industries, or attracting youngmen to agriculture, the initiative must come from the Central authority. The collaboration of provincial governments will, no doubt, be essential in any event. In the debate that took place in the Legislative Assembly in 1926 Sir B. N. Mitra, speaking on behalf of the Government of India, took up the position that the Government of India was already doing its best, and when the provincial committees had submitted their reports they would consider whether it was necessary for them to co-ordinate or co-relate activities of these provincial governments. His exact words were: "When these Provincial Governments, particularly of the provinces where there is unemployment among people at large or among the educated middle classes, when they have investigated the matter with the help of local committees on which they are appointing large numbers of non-officials, there may come a time when it may be necessary to appoint a Central Committee; and when that stage

is reached, in fact when Provincial Governments come up to the Government of India and tell the Government of India that the time has been reached when a Central Committee is required for the purpose of co-ordination and co-relation, the Government of India will not hesitate to appoint that Committee." This attacking of the problem provincially is a fundamental mistake. The provincial governments cannot embark on, nor even deal with, large schemes of industrial expansion, because the control of the fiscal, railway and financial policies is in the hands of the Central Government. The provincial governments cannot control or guide the railway, tariff and currency policies. Witness the Ottawa Agreement, the Mody-Lees Pact, the Indo-British Trade Agreement, and the industrial and financial safeguards of the J. P. C. report. Nor are they as big employers of labour as the Central Government. The fundamental features and ultimate causes being common to all provinces there will be much overlapping of effort at the hands of provincial committees and governments. The proper course is for the Central Government to examine the problem in its broad features and then leave the provinces to work out the details where their local conditions call for any differentiation. Let me illustrate this proposition by a very recent instance. The grant of protection to the sugar industry has during the last two years led to the creation of over 100 sugar factories all over India, the majority of which are situated in U. P. and Bihar. These mills, directly and indirectly, have provided employment for thousands of not only uneducated, but educated young men as well. Yet no provincial government actually had or could have had any hand in the creation of this large avenue of employment. It was all the Central Government's doing. Again the restricted, narrow provincial committees have not by the very nature of their constitution, been able to take note of the political factor, which, with all respect to the authors of the provincial reports, is not a negligible factor. Let us think for a moment of the Indianisation of the Army, the Air Force, the Navy, the Superior All-India services, and the Railway services from the point of view of providing jobs, and we see that, with a liberal policy of Indianisation, the Central Government can provide jobs for a good many thousands of youths by the mere stoppage of foreign and non-Indian recruitment. True, it has been said that the army is intended only for the martial classes. But the Rajputs, Sikhs, Mahrattas, and Nairs have been martial races and there is no less unemployment among their educated youths than in other communities. The biggest possibilities, therefore, are

outside the purview of the provinces and yet the Government of India wants them to make the enquiries first. The provincial committees have so far been able to suggest only palliatives and poor palliatives at that.

The causes and remedies that the Provincial Committees and others have examined fall under three groups: Social, Educational and Economic.

Social: An aversion to manual labour, a false notion of caste and social dignity, a fatalistic attitude to life, the benumbing atmosphere of the joint-family, the absence of a sense of personal responsibility in the members composing it are among the causes supposed to heighten the evil of the educated middle-class unemployment. There is no doubt that these factors have served to accentuate the evil but they are also a fast-disappearing factor. Under the compelling force of stern economic circumstances the old social order is crumbling down. There are clear indications that from an agricultural society we are beginning to drift towards organised industry and industrialized agriculture. The process has only begun, and except in the larger urban areas the indications are not very marked. While the stern realities of modern life are removing the social prejudices referred to above, it would be helpful if a little organised active propaganda were conducted by the education department principally and partly by the Co-operative and Agriculture Departments to instil into young minds while they are still sufficiently receptive of early impressions, the dignity of manual labour.

The unrestricted growth of population is likely to accentuate still further the problem of unemployment among the educated classes. Many people at the present time are advocating late marriages and moral restraint in order to restrict further increase in population. These methods for the limitation of birth-rate are by no means new. They were propounded by Malthus as far back as the year 1798. Methods like these for the limitation of birth-rate are, however, not quite wholesome being contrary to the laws of physiology, and are worse than the evil they seek to remedy. The rule of enforced celibacy might involve more suffering even than want of food, and very late marriages simply constitute an outrage upon morality by encouraging prostitution and increasing the number of illegitimate births. For that reason the Neo-Malthusian methods advocated by the "Cambridge School" for the limitation of birth-rate seem to be preferable. Paradoxical as it may seem, the sexual instinct plays quite a secondary rôle in the procreation of the human species. Nature has doubtless united the two functions

in the same organ. But man has displayed greater ingenuity than Nature's by separating the two functions. He now finds that (since he has known how to get rid of reproduction through the method of sterilisation) he can gratify his lust without running the risk of begetting children. Besides, there are a number of other modern methods such as the use of contraceptives, etc., whereby men can perform a double function, on the one hand giving full scope to sexual instinct in accordance with the physiological and psychological laws of their being, and on the other taking care not to leave such a supreme duty as that of child bearing to mere chance and not to impose upon womankind such an exhausting task as that of maternity save when freely and voluntarily undertaken. It will be advisable for the government to acquaint the middle classes, if not the masses, with all the modern methods of birth control and their uses. The Government can do something in the matter through its Medical, and Public Health Departments. No doubt, the suggestion of birth-control as a partial remedy for curing the unemployment problem is at best a negative, distant, and indirect remedy, but I venture to suggest that it would be to the extent that it goes a lasting remedy.

Educational: It has been admitted on all sides that the education which youngmen receive in India is generally literary and ill-adopted to industrial, commercial, and agricultural pursuits. The attempt made to divert Indian youths from a purely literary education to industrial, commercial, and agricultural training by opening technical and agricultural schools has been more or less a failure, and this for a double reason. These schools have been divorced from the realities alike of Indian industry and agriculture. The provision for practical training such as the industries are in need of has been sadly lacking. The men turned out from these schools have in many cases failed to find remunerative employment, because the schools have not been in day to day touch with the industries to whose demands they are supposed to cater. Another factor contributing to the failure of vocational education as hitherto conducted has been the fact that only third rate brains that have failed to succeed elsewhere or that know not what to do have been drawn to these schools, in not a few cases attracted by the scholarships available. Nor have the subjects and the courses to be taught in these schools been very wisely selected. Let us take an example from the city of Allahabad. There was no dirth of good carpenters in India. Not much furniture was being imported from abroad. Yet the Government chose to start a Carpentry School

in Allahabad and with what result? The scholarships awarded attracted some students who knew not what to do. If my impression is correct, half the students coming out of the school have adopted other occupations than Carpentry. This is no fault of the school management who impart good training indeed. And most of the other half have only served to displace the old country carpenters. There are, however, a hundred printing presses in Allahabad. If they have to employ high class skilled labour they must import it from Calcutta or Bombay. If they further require highly qualified technical directors for their business they have to import them either from these cities or, in some cases, even from the Continent of Europe. The whole trouble is that in starting these technical schools the government do not take into account the demand of industries that already exist nor do they show any very intelligent appreciation of what industries can more suitably spring up at a certain place. This difficulty can be removed if there is a closer touch between the State and the industrialist, a touch which unfortunately is not at all intimate at present. The form of the existing technical schools and their courses of training so as to be more and more in harmony with the needs of industry, increased provision for practical factory-training of the pupils in these schools, the imparting of what has been termed an "agricultural bias" to the English and Vernacular schools in rural areas, the giving of a "Vocational bias" to pupils in urban schools by better provision for the teaching of practical science therein, and the introduction of elementary mechanics as a subject of study and the adding of an industrial chemistry department to the faculty of science, and the opening of demonstration farms and agricultural schools in rual areas are some of the many palliatives suggested. Care and caution must be exercised in the multiplication of technical schools by a previous survey of the prospects of employment, only such schools being started in the first instance as can cater to the demands of existing industries, or industries that are likely to come into being at an early date. Otherwise, these schools will aggravate, as some of them have partly done, the very problem that they are designed to solve. A more helpful procedure will be to provide a system of practical training in India, England, and the Continent without running the expense of starting costly technical institutes, for a carefully selected but substantial number of students of proved industrial and mechanical aptitude, in the workshops of the manufactories receiving the stores purchase orders of the provincial or the Central governments. The Central Government being a very much larger buyer than the

former can more easily put its large patronage to this effective use. While recognising that there should be extension of vocational and technical education as a measure of reducing unemployment, I am definitely of opinion that no impediment should be placed in the way of our youngmen getting the highest possible education. If the policy of mass education and of compulsory primary education is taken up by the State—as it should be taken up—many hundreds of our educated youths will be able to find employment immediately.

In certain quarters a belief is entertained that the establishment of institutions with the special object of training youngmen for the profession of journalism and authorship will be helping the problem of unemployment to a small extent. The Calcutta University has already taken a lead in the matter. They have included journalism as part of the post-graduate economic course. The Universities of our province may well follow in the footsteps of the Calcutta University in this matter. The profession of journalism in India, however, is not at all lucrative. Most of the newspapers and journals here are maintaining a hand-to-mouth existence because of the widespread poverty, illiteracy, and the absence of a reading habit in the people of the country. The tone of journalism certainly will improve if qualified youngmen will take to journalism; but unless and until our people become stronger both economically and educationally I for one would venture to suggest that, in the existing conditions, even to a limited extent, it is not a serviceable remedy. If, instead of opening separate institutions for training our youngmen for the profession of journalism, we concentrate our attention and energy upon the opening of those institutions where our educated youths can get training in the art of tailoring, hair-cutting, and laundry-work, etc., I am sure we shall be rendering more widespread service to our educated unemployed youths. The question of finding money (initial capital) for these trained men to start on their lives will not be a very difficult one. When our youngmen can afford to spend thousands of rupees in getting a University degree, it should not be very difficult for them to arrange for a few hundreds that will be required to give them a start in professions like these.

Economic: The limited unemployment problem that we are considering is part of the wider problem of Indian poverty. And while the ultimate solution will, of course, depend in good time upon a more intensive development of the economic resources of the country, industrial and agricultural, economic palliatives have been suggested to meet the limited objective, though not a

few suggestions in this respect come to no more than robbing Peter to pay Paul, helping the educated classes at the cost of the less educated and the uneducated. Two typical examples of such suggestions may be cited. A member of the U. P. Unemployment Committee (of 1930) has suggested that matriculates and S. L. C.'s or men of the same educational status be taken into the ranks of the Police Service. This does not mean the creation of a fresh avenue of employment for our countrymen, but keeping out the present class of constabulary and introducing another class. Of a piece with this is the Travancore Committee's suggestion to reserve pleader's 'gumastaships' for certain certificate holders. The U. P. Committee might well have asked for a similar reservation of 'muharrirships.' But this will not assist us at all, for the solution of the problem does not lie in distributing the existing jobs among a more deserving class but in creating fresh avenues of employment in the urban areas and in increasing the productive yield of land in the rural areas. The most important cause of middle class unemployment is the paucity of openings available for educated youngmen. In England, for example, the Dictionary of occupations published by the Ministry of Labour mentions 16,000 occupations excluding administrative service (Army, Navy, and Civil Service) and professional service (Lawyers, Doctors, etc.). In India there are, perhaps, less than 40.

The most important of the economic remedies suggested is the cry of "back to the land." The U. P. Government is already giving a trial to a scheme of settling educated youngmen on agricultural land under the guidance of B. Durga Prasad, a deputy collector of these provinces. There is certainly some scope in fruit-growing, and vegetable gardening in areas adjoining large towns. Barring this little scope I do not believe in the possibility of a scheme like this for this province, so far as relief to the urban population is concerned and that for the following reasons. This province is already one of the most closely cultivated regions in the world. Every square yard of land which is capable of cultivation is already tilled. In Europe 250 persons to the square mile is thought to be the limit of density where agriculture is practised. Our province, on the other hand, has a mean density of 442 according to the latest census. Though seventh of the provinces of India in size it is third in point of population. Eighty per cent of the earning inhabitants of this province are actively engaged in agriculture. In fact, the agriculturists themselves need to be provided with more means of subsistence and subsidiary occupations to add to their purchasing

capacity. Under the existing world conditions and agricultural prices, agriculture with hired labour has ceased to be profitable and indeed, in too many cases, resulted in a huge loss. Only a very small percentage of the educated unemployed are physically fit for settling on land. In the countries of the West, too, the only time when University men take to agriculture is when everything fails. The less strenuous life in the town always appeals to youngmen compared with the arduous pursuits in the village. And to crown them all, village life in India is very unattractive and is not half as good as in the West. Only when lives in villages seem worth living to them can our educated youths think of taking to agriculture. For the creation of such an atmosphere of hope and confidence the whole environment of village life should be rendered wholesome and attractive. Agriculture in this province can be a practical profitable proposition for an educated youth of the city only within very narrow limits and that too provided he has the necessary capital and the technical skill available for intensive and scientific agriculture on American lines.

I am at one with Mr. Nalini Raṇjan Sarkar in the belief that comprehensive rural reconstruction schemes for the economic, social, and cultural uplift of our agricultural masses would not only lay on a more sound and permanent basis the prosperity of this country, but would also incidentally provide for the employment of a large number of our youngmen. No doubt, such an important and big undertaking would require a large initial expenditure, and that could be undertaken by the Government alone, because the ultimate increase in the wealth and well-being of the rural population would enable them to make ample returns for the expenditure thus incurred.

Among other economic remedies suggested are the starting of small industries in urban and rural areas—both on a cottage industry basis and on a factory-basis. They include the making of furniture, candles, canebaskets, woollen blankets, card-board boxes, writing inks, pencils and pen-nibs, tags and other small metal articles, hosiery, envelopes, buttons and soaps, confectionary, lac varnish and dyes, bee-keeping, poultry-farming, dairy-farming and fruit-growing, and the making and preserving of jam and jellies and vegetable sauces. There are certainly possibilities in some of the agricultural and urban industries mentioned above. Most of them do not also call for large capital or anything more than individual effort. It must not, however, be forgotten that not a few of them will involve competition with the old manufacturer. It is also doubtful

whether they would be able to stand competition successfully with the products of organised manufacture and mass-production. This is, however, true only of some; a notable exception that may be noticed in passing is poultry-farming, which, in view of the recent attempt being made to introduce Indian eggs abroad, has apparently bright prospects, before it.

We may further note a few suggestions thrown out by the last U.P. Committee, namely, engaging in occupations dependent on agriculture, the collection and sale of agricultural products, and the upkeep of agricultural machinery like Persian wheels, cane-crushers, power-driven tube-wells, and engaging in co-operative work. It is not obvious to us how engaging in co-operative effort on private initiative in a non-official capacity will be remunerative to the educated youngman. It is certainly a patriotic effort, and it will certainly do good to those for whom he is working; but what monetary rewards it will bring him we cannot see. If the Committee want a modern educated 'banya' in place of the old country 'banya' he would need a large capital, and it would only mean the substitution of one class by another. Much the same criticism has to be offered in respect of the collection and sale of agricultural products. The ubiquitous 'Marwaris' and the agents of large shipping houses employing our own countrymen, are already doing this work. The only merit in the suggestion is that perhaps it will serve to distribute this business among a large number of persons instead of concentrating it in a few hands.

Opportunities for employment may also be created by providing for social services like sanitation and medical relief on a wider scale. Money for this can easily come if the Government revises the scale of salaries of its higher-paid staff. True, some revision has already taken place; but that is just in the nature of an eyewash, and still there is considerable room for further reduction. In that event it is pointed out that the right type of men may not be attracted to Government service. I, however, do not subscribe myself to such a view. In view of the low level of prices prevailing at present and in view of the numerous attractions of Government service—the security of service, a pension for old age, an easy life with short hours of work and plenty of holidays, regular promotion without any particular need for efficiency, the social prestige, influence and power, the likelihood of getting titles and honours, and the feeling that the actual emoluments are much greater than what the mere rates of pay indicate—there will be no dearth of really competent persons taking to it.

Much is being made of the proposed establishment of employment bureaus in the reports of more than one Committee. But I am afraid they will not create fresh jobs for youngmen; they will only serve to distribute the existing opportunities perhaps in a little more equitable manner than at present when much is left to chance.

Emigration, which has provided an excellent outlet for the growing population in many countries of the West, is unfortunately of hardly any help to us, due principally to political causes. The British colonies abroad do not want educated Indians. They want only agricultural labourers and even to them they would not accord a position of equal political status. Therefore, Indian public opinion is hostile to any emigration. There is, however, some little demand, I believe, even for educated youngmen in some of the colonies, and if those who go out have some resources, they can do much good to themselves and to their less educated countrymen already settled there.

A vigorous policy of the development of public works would provide employment for a number of youngmen both in superior and inferior grades. Now is the time for doing this both because materials at present are very cheap and money can be raised at a very low rate of interest. Besides providing employment immediately to a considerable number, the development of communications will materially help in the better marketing of agricultural commodities.

Another way in which, in my opinion, unemployment can be partly eliminated from among our educated youngmen will be the adoption by the government of a policy of not granting further extensions to those who have served their full terms. Further, and what follows is of more importance, the government should lay down as its fixed policy that, in no case and under no circumstance, is any of its pensioners to seek employment elsewhere, and it should make it perfectly clear that were they to do so they would be liable to forfeit their pension altogether.

The government can no longer shirk its responsibility in the matter of providing opportunities for service to its people under the false belief in the Physiocratic doctrine of Laissez-faire et Laissez-passer. That doctrine is dead. It is the duty of every civilised government to provide its citizens with adequate facilities for winning their bread. Our government can do much to discharge this obligation. In moving his resolution in the Legislative Council for the adoption of a Five Years' Plan for U. P., Mr. Chintamani, whose patriotic and selfless services to

the country are too well-known, vigorously pleaded for a bold programme of expansion and improvement, and there is no reason why the government should not immediately take up his suggestion. Economic-planning is the order of the day. Countries like America, Germany, Italy, and Russia, and the government of French India and others have vigorously taken up this work in one form or other. Our government should not lag behind. The requisite funds can be raised by floating a long-term loan to be paid back in regular, easy instalments. It is in the interest of the government itself that it should do away with unemployment among the educated classes. In the opinion of the Sadler Commission, the existence and the steady increase of a sort of an unemployed intellectual proletariat forms a menace to good government, especially in a country where the small educated class is alone vocal.

A word to our capitalists. A complete change is overdue in their traditional craze for investment in land and government paper. This attitude must give place to positive efforts for investment in more productive directions. Unless they do so they cannot create more opportunities for future generations.

Conclusion: What, then is the conclusion of our brief survey of this problem? That there is no royal road to it—a pessimistic conclusion, no doubt, but an inevitable one. The general economic amelioration of the masses and the middle classes which is the crux of our problem is a long and tedious process. The unemployment problem of the West is essentially different from ours. There they want markets—it is the shrinkage of the pre-war markets that has created the problem. But here with us we have the ready-made home market as big as we might wish for at present, but where have we the thousand and one industries which we ourselves help to keep alive in foreign countries? The problem is to create them—which means that the problem is to find the capital for them, the technical skill, the labour, and the raw material. We have the last two. We lack the first two. Of these two the capital is there but is shy, which means that confidence is wanting. It is here that the State can effectively intervene in providing technical skill, in inviting capital by guaranteeing a minimum return and affording protection where it is needed—all which will only serve to impress us with the magnitude of the problem. In brief, what we want is a national outlook on the part of the State, a consequential policy of State-aided industrial expansion in the urban areas, a policy of intensive scientific agriculture on modern lines in the rural areas, and last but not the least of all a spirit of practical resourcefulness and enterprise

in the people as typified in men like the late Sir Jamshedji Tata, and the late Sir Ganga Ram, and the happily alive Sir P. C. Ray, and Shri Sahebji Maharaj. Given these the problem is capable of early solution. Without these we shall be wandering in a wilderness and perhaps may find a way out in half a century.

NOTES FOR THE GUIDANCE OF MEMBERS CONTRIBUTING PAPERS FOR THE NINETEENTH INDIAN ECONOMIC CONFERENCE TO BE HELD AT DACCA

General.

It would be desirable if contributors concentrate in their papers on certain selected and well defined aspects of a subject on which they wish to express themselves with authority. General treatment on well recognised and established lines should not be allowed to assume more than an introductory portion.

1. **Wages in Relation to Costs.**

(*i*) Wages as an element of costs of goods subject to international competition and their bearing on fair competition.

(*ii*) Wages and cost of production—Rigidity of wage-structure as a cause of crisis.

(*iii*) Supply price of Labour and its relation to cost of production—social stratification and its bearing on costs.

(*iv*) National means and wages—the effect on social structure.

2. **Land Tenures—Historical and Modern.**

The subject may be dealt with reference to a single province; or a comparative treatment of any two systems may be given. Here no doubt attempt will be made to throw light on the subject by reference to original documents or special personal investigation would be appropriate.

3. **Structure of Indian Industries.**

A study of the organisation, size and relevant problems of any one or more industries about which the author is in a position to speak with authority either by special study or personal investigation.

General observations on the problem should be illustrated by concrete cases.

4. **Economic and Financial Aspects of the New Constitution.**

A general treatment of the question as a whole is not likely to be of any particular advantage as this has now been done in authoritative parliamentary publications. It would be desirable if papers concentrate on one or more aspects either relating to the Federal Government or to a Provincial unit.

REVIEWS OF BOOKS

"THE RISE AND FALL OF THE GOLD STANDARD," by Sir Charles Morgan-Webb (pp. 184). George Allen and Unwin, London, 1934, 5*s*. net.

This book is the outcome of the author's addresses to sundry Rotary Clubs. Naturally therefore it contains traces of the lecture form. It presents a brief and lucid account of the "Gold Standard," as it was developed in England during the 19th century, and traces its vicissitudes during the last twenty years. Incidentally the author has pointed out how the same term—gold-standard—is used to denote various currency systems which differ fundamentally from one another.

The book begins with a rapid survey of the evolution of the "Pound sterling." From a pound (Troy) weight of silver pennies, through various transformations, it has come to indicate a piece of paper denoting a certain legal value. During the last century it meant certain weight of gold of a certain fineness bearing the authority of the state. It was popularly known as the sovereign because it contained the emblem of the ruler.

Thanks to the political and economic position of Great Britain during the latter part of the 19th century as well as to her industrial and commercial policy, from a national standard coin the pound sterling became an international standard of currency. As the author points out, the sterling bill of exchange came to be an international currency, as it was backed by an efficient metallic reserve managed by the Bank of England. The author has rightly pointed out that the sterling standard was to a great extent a "managed standard" and not an automatic currency system, as many of its admirers and apologists have imagined.

"The delicate organisation, by which the sterling standard originally designed as domestic currency for Britain, was enabled to expand into a worldwide international currency, could not withstand the shock of war in 1914" (page 78). The position of the sterling has been rendered precarious on account of the political and economic changes which have come over the world since 1918. The supremacy of Britain has been questioned by the U. S. A. so far at least as the economic affairs of the world are concerned. The dollar has now come to play as important a part as the pound sterling of pre-war days. This is due to the strong creditor-position of the U. S. A.,—one of the direct effects of the war. Though the American currency system is also based on gold, the manner of its working is very different from that of the old British system. The U. S. A., as the author has explained, is concerned with maintaining a stable price level at home rather than with preserving a stable system of foreign exchange. (In addition to the facts mentioned by the author in support of this opinion, we may refer to the course of the dollar-sterling exchange rates during the last two years.) Nor is the U. S. A. as keen about foreign investments as Great Britain was before the War.

The position of the sterling since 1920 has been somewhat uncertain. This is what the author means by "the fall of the gold standard." Owing to various causes it has been impossible for Great Britain to restore her post-war currency system to its pre-war status. As Professor Keynes has

been declaring during the last ten years, the attempted restoration of the gold standard in 1924 was foredoomed to be a failure, because the position of Britain *vis-à-vis* U. S. A. and France has fundamentally altered since the great war. The latter have become equally important creditor-nations. But unfortunately their industrial and commercial policy is of a different type from that of England. The U. S. A. has got a way of drawing in her horns when she feels that there is something wrong at home, not caring for the effects of such action on the fate of other countries. This has been glaringly illustrated by her diplomacy, and it is equally true of her financial and industrial policy. She is not prepared to recognise the illogical position she holds by being a creditor-country and at the same time preventing her debtors from paying up in the form of goods. The effect is that she is herself suffering from an inflow of gold which she has to lock up, and her creditors are hard put to it to redeem their obligations in that form. It has now become obvious that the Hoover moratorium will eventually lead to a universal cancellation of international debts.

In regard to France, her method of working the gold standard is for various reasons even more hide-bound and short-sighted than that of the U. S. A. It is no exaggeration to say that the French people, both as individuals and as a nation, are inveterate hoarders of the yellow metal. What they do not hold in the form of gold, they wish unlike Great Britain to keep in the form of liquid securities rather than as permanent investments. Under these circumstances the author is quite justified in his gloomy conclusion that "the restoration of the gold standard is about as feasible as the restoration of Queen Anne" (p. 127).

The last three chapters of the book deal with topics of absorbing current interest, such as the causes that led to the break-up of the World Economic Conference in 1933, the factors that contributed to the issue of the Currency Manifesto of the British Empire delegates soon after, and the evolution of a similar policy in Great Britain and U. S. A. during the last two years. Great Britain has given up, for the time being the futile task of working the pre-war gold-standard, whose aim was the maintenance of stable foreign exchanges even at the risk of instability of the price level at home. Similarly against great odds President Roosevelt has been attempting to raise the level of prices in his country, not caring for the effects of such a policy on her foreign trade relations. The effect of it is that both Great Britain and U. S. A. have now paper standards, and curiously enough in spite of that their ratio of exchange is not very different from the old mint par of exchange. To some extent Great Britain has recovered her position in the financial world as a result of an understanding with her dominions and dependencies arrived at at the Ottawa Conference. It looks as though the paper sterling is now commanding as much confidence as the gold sterling of the pre-war period. To achieve this Britain has had to alter financial and economic policy in certain important directions. It is impossible to say what the future will bring, but Britain's going off the gold standard in September, 1931, in sheer self-defence has been justified by the result.

The book should be of interest to the general reader, who wishes to understand the principles underlying the kaleidoscopic changes in the currency systems of England, U. S. A., and France in recent years. But the aim of the author is to explain the vicissitudes of the English currency

systems rather than those of the gold standard in the world in general. The academic reader is handicapped by the absence of a clear definition of the term " "gold standard," a description of its essential characteristics, and an explanation of its connection with the economic system underlying it. The book also contains a few paradoxes and truisms which might nonplus an ordinary reader. For example, the statements "the great merit of the gold standard was its logic not its gold" (page 14), and "the guinea was killed by its supreme virtue, its stability," (page 41) are somewhat paradoxical. On the other hand, a sentence such as, "a standard of currency is a standard of value, and a standard of value must be a fixed unit of value" is a truism, the latter part of it being even inaccurate. It is one thing to say that an ounce of gold is always equal to £3-17-10½, and another that 'a pound sterling is a fixed unit of value.' The latter statement is not correct, for withal its stability the general purchasing power of the pound has always been subject to fluctuations, as the British Index Numbers in the 19th century would show.

The book under review is a useful addition to the growing number of popular handbooks on the vexed and 'mysterious' subject of currency, and is well worth perusal by a serious-minded general reader, who wishes to get a clue to the bewildering mass of scrappy information which appears in our journals and newspapers relating to the currency systems of the leading countries of the modern world.

N. S. N. I.

THE CANADA YEAR BOOK, 1933, Ottawa: King's Printers, 1933, $1·50.

The Earl of Willingdon dissolved the Parliament of Canada on June 19, 1930—six months prior to being named Viceroy and Governor-General of India. Electioneering was conducted through the slough of depression in which the Dominion (in common with other countries) appeared to be sinking at the time. Prices of commodities had been falling rapidly. Wheat, upon which the Prairie provinces largely depended for their existence, and which occupies the premier rank amongst exports, was quoted at the Winnipeg grain market at a rate less than half that for which it had sold twelve months before. Even at that price it was difficult to unload it. Stocks in farmers' barns and in the elevators—co-operative and otherwise—were steadily mounting. They rose to 111,100,000 by July 31st of that year—an alarming figure, particularly in view of the downward price tendencies.

Economic issues dominated the electoral campaign, all other matters having been pushed into the mental background of the voters by the growing scare of want. The Rt. Hon. William Lyon Mackenzie King and his colleagues of the Liberal Administration who, some four years earlier had been sent to Ottawa triumphant at the polls to replace the Conservatives who, under the Rt. Hon. Arthur Meighan, had been in office, without prior election, for a brief few weeks, feverishly stumped the Dominion, stretching, as it did, from the Atlantic to the Pacific seaboard. They tried particularly to make much of the relief in taxation given by them

twice in the period they had been in the saddle; and the upward revision of the tariff to hit back at the United States of America which had, a little earlier, raised the customs barrier, especially against Canadian products.

The election held on August 1, 1930, showed however that the voters had decided to give the Conservatives the opportunity to show what they could do to lift the producers out of the ditch of depression. The Rt. Hon. R. B. Bennett, with colleagues of his own choice, took office six days later.

Their electoral addresses had deeply committed them to the policy of deflecting Canadian trade into Empire channels. These pledges they essayed forthwith to honour. Parliament met on September 8, 1930, in a special session which lasted a fortnight.

The Canadian delegation, headed by the new Premier, hurried from that session to the Imperial Conference, which began on October 1st and put before it their project for stimulating Empire trade. Despite much eloquence, they failed to rouse the enthusiasm of the British representatives. The general impression formed in Britain was that the gains in British exports to Canada would be incommensurate with the sacrifices involved in giving the Dominion the freedom she desired for unloading her wheat and other products on the British market. Mr. Bennett and his associates returned empty-handed to Ottawa, much to their own chagrin and the delight of their Liberal opponents.

The set-back proved however to be only temporary. Following the introduction of fiscal changes in Britain, a measure was passed (November 21, 1931) by the Dominion Parliament, assimilating preferences granted by Canada to Empire products to the level to which such preferences had been raised in the Mother Country. Lord Willingdon assented to it on the eve of his appointment to India.

Some seven months later (July 21, 1932) the Imperial Economic Conference opened at Ottawa, at the invitation of the Bennett Government. Delegates from the United Kingdom, all the Dominions and India attended it. Discussions over concessions to be given in exchange for those to be received by Canada were protracted. At times it appeared that the Conference was heading towards a deadlock. Resistance believed to have been put up at the instance of the strongly entrenched and highly vocal industrial group, particularly in Ontario—the stronghold of the Conservative Party—finally gave way in consequence of the refusal of the British delegation headed by the Rt. Hon. Stanley Baldwin, to concede advantages to Canada in the matter of export of food-stuffs and raw materials without *quid pro quo* that they regarded as adequate. The series of pacts that resulted were at once hailed as ushering in a new era of Empire trading.

An article contributed by Mr. W. Gilchrist, Chief, Foreign Division, Department of Trade and Commerce of the Dominion Government, to the *Year Book* under review, gives an indication of the sacrifices that Canada had to make in order to obtain a larger market for her products in Britain. To quote him:

> " . . . Canada agreed to widen the margin of preference on imports from Britain on a great variety of goods as set forth in a schedule attached to the Agreement. Actual changes were

> made in 225 Canadian tariff items, on 223 of which the margin of the British preference was increased. The tariff was lowered on 133 items, more than half of which were placed on the free list, in the other cases the margin was increased by raising the intermediate and general tariffs. By major groups, the tariff changes mainly concern iron and steel, drugs and chemicals, textiles, leather goods, glass, vegetable oils, as well as a wide list of miscellaneous commodities. Generally speaking, manufactured goods of a class or kind not produced in Canada were made free. Additional preferences were also provided for imports into Canada of various commodities produced largely in the non-self-governing Colonies and Protectorates. Canada agreed that the tariff should be based on the principle that protective duties should not exceed such a level as would give United Kingdom producers full opportunity of reasonable competition in Canada on the basis of the relative cost of economic and efficient production with special consideration to be given to industries not fully established."*

As may be expected in the circumstance, the language employed is tactful. It nevertheless indicates where the hitch had been. If the industrial group could have had its way, this doctrine of "reasonable competition" would have been stilled at birth.

For purposes of reviewing "duties on United Kingdom goods in conformity with" this principle a Tariff Board was to be instituted. The duties were not to be increased "except in accordance with the Board's findings." It may be added parenthetically that the Dominion Parliament had already authorised the setting up of such an authority.

Canada further undertook "to abolish surcharges on imports from the United Kingdom as soon as" her "finances would allow: and to give sympathetic consideration to the abolition of the exchange dumping duty on British good."

In exchange for these concessions, Canada received consideration that, in the existing economic conditions, was to her exceedingly valuable. Dutiable timber, fresh and canned (North Americanism for "tinned") fish, asbestos, lead and zinc were to continue to enjoy a ten per cent preference. Preferences in addition to those already given were to be granted to benefit certain Canadian products "by the imposition of new or increased duties on competing foreign products." Wheat and fresh and canned apples were among these articles.

Canada was "granted unrestricted entry for a maximum quote of 2,500,000 cwt. *per annum* of bacon and hams and for 10 years a margin of preference of 2*s*. 0½ per lb. on manufactured tobacco." Eggs, poultry, butter, cheese and other milk products were to be accorded free entry for three years, at the expiry of which the position as regards these articles was subject to review.

Agreements with other Dominions were to apply automatically to Canada as an Empire country. To safeguard British interests, it was stipulated that his Majesty's Government "reserved the right to remove

* *Canada Year Book, 1933*, p. 485.

duties on foreign wheat, copper, lead and zinc if at any time Empire producers were unwilling or unable to provide it at world prices."

Canada secured increased preferences on selected articles also in the non-self-governing Colonies and Protectorates.

Statistics contained in the *Year Book* give a concrete idea of the need that impelled the Dominion to enter into this pact and of the advantages it conferred upon her. Consideration of space forbids examination of more than one article. Wheat is selected for this purpose in view of the important place it occupies both in economic production in the Dominion and the export trade, as is obvious from the following figures:—

	Acres under Wheat.	Yield in Bushels.	Value in Dollars.	Per Bushel.
1928	24,119,000	566,726,000	451,235,000	0·80
1929	25,255,000	304,520,000	319,715,000	1·05
1930	24,898,000	420,672,000	204,693,000	0·49
1931	26,201,000	321,325,000	123,550,000	0·38
1932	27,182,000	428,514,000	129,105,000	0·30

	Wheat Exports Bushels.	Dollars.	Wheat Stocks in Canada Bushels.
1928	266,902,189	352,117,150	77,626,071
1929	370,459,551	428,524,326	104,383,221
1930	177,006,369	215,753,475	111,094,912
1931	217,243,037	177,419,769	134,078,963
1932	191,315,933	115,739,383	130,948,901

To grasp the value of the wheat preferences secured by Canada from His Majesty's Government, it is necessary to read the above figures side by side with those relating to the export of that commodity to Britain and the United Kingdom:—

	United States Bushels.	Dollars.	United Kingdom Bushels.	Dollars.
1928	7,503,681	9,503,381	188,657,268	244,816,063
1929	10,634,834	12,380,823	229,801,402	260,008,624
1930	6,804,099	7,487,014	113,224,273	139,798,345
1931	10,337,690	7,727,678	131,679,398	106,759,872
1932	4,815,985	2,670,650	110,552,532	65,302,614

The *Year Book* under review went to press before the figures relating to external trade for the first year completed since the Ottawa preferences became effective were available in detail. Another publication, *Canada, 1934*, also issued under the authority of the Minister of Trade and Commerce of the Dominion of Canada contains the following statistics concerning wheat:—

	Bushels.	Dollars.	Increase over 1932 (Ended March) Bushels.	Dollars.
1933 (ended March)	239,373,255	130,546,365	48,057,322	14,806,982

It is to be regretted that these figures relating to wheat exported to the United Kingdom and other countries are not available separately. In view of the tendencies of the past and the movements of general trade during 1933, it is, nevertheless, clear that the preferences given by the United Kingdom have had the effect of stimulating the Canadian export to those Isles.

The statistics appertaining to the export trade during 1933 contained in the *Year Book* leave no doubt whatever as to the vigour of this impetus. To convey a fair idea of this upward trend, it would however be necessary to reproduce a long table. The same purpose can be better served by quoting the following excerpt from *Canada, 1934*:—*

> "At this time (of writing), the trade figures for the twelve months ended October, 1933, indicate that while total exports reached $514,687,666 compared with $524,757,105 for the year ended October, 1932, showing a reduction of 1·9 per cent, and imports were reduced from $473,084,805 to $388,905,458, or by 17·8 per cent, exports to the United Kingdom actually increased in the same period from $180,499,966 to $198,329,743, or by 11·0 per cent and imports from the United Kingdom also increased from $93,806,802 to $95,157,552, or 1·4 per cent.
>
> "Our trade with the United States has suffered much more severely, imports having fallen from $278,463,855 to $210,858,072, or by 24·3 per cent, and exports from $185,537,075 to $165,544,488, or 10·7 per cent. in the same period."

This is not the first time that violent fluctuations have taken place in Canada's external trade. The fact to be noted is however that the movement has been deliberately fostered in the present instance.

This issue of the *Year Book* is replete with valuable matter pertaining to a variety of subjects, as were the earlier numbers. Considerations of space have induced the Dominion Statistician, under whose general oversight the volume was compiled, to omit certain tables from the present volume: but such omission does not in any way mar the usefulness of the work.

ST. NIHAL SINGH

THE NEW AMERICA, by the Right Hon'ble Sir Arthur Steel Maitland, Bart., P.C., M.P., Macmillan & Co., Ltd., London, 1934, pp. 238. Price 10|6.

This book is a study of the Recovery Programme in the United States of America initiated by President Roosevelt. It describes the course of events in that country since March 1933, in industry, in agriculture, in currency and finance and in politics as well as the personal opinions formed by the author after a study of the facts. Sir Arthur was invited by the Rockefeller Foundation to give an opinion on the Programme. He visited the United States and studied the whole thing at first hand. The result is *The New America*. Sir Arthur does not claim it to be an

* *Canada, 1934.* The King's Printer, Ottawa, p. 133.

exhaustive study because he says that certain facts and features of the Programme might be pointed out by some people well acquainted with the situation that appear of importance in their eyes but that have not been touched by him. However, the book gives a fairly comprehensive analysis of Roosevelt's 'New Deal'—an analysis which is moreover at once clear, well balanced and masterly.

The book contains eleven chapters. The first chapter gives the economic and political background; the second deals with the depression, its causes and depth; the third outlines the various acts passed by the 73rd Congress at its special session of 100 days from March 9 to June 16, 1933; the fourth and fifth discuss the National Industrial Recovery Act (N.I.R.A.) in so far as that part—Title I—of the Act is concerned which contained the provisions under which codes for industries were established; the sixth, seventh, eighth and ninth chapters describe the N.R.A. as it has affected agriculture, unemployment, currency and banking and finance respectively. The tenth chapter headed the Recovery Balance Sheet goes into the question of the expenditure involved and points out the achievements of the Recovery Administration. The last chapter glances from the to-day to the to-morrow and the future, of America.

These eleven chapters are preceded by a prologue and are followed by an epilogue and a number of appendices and charts.

The most prominent of all the statutes of ths special session of 1933 was the National Industrial Recovery Act which is administered by the National Recovery Administration. Sir Arthur regards the Act as "an epitome of the many-sided nature of the Administration and its distinct and differing objectives. It is a relief measure, a recovery measure, a reform measure, and also . . . a measure of permanent reconstruction, all rolled into one and conceived on a grandiose scale," p. 51. It has meant an expenditure of huge sums and the undertaking of great obligations. According to him the net dead weight debt of the Federal government would be about $29 billion at the end of the financial year 1934-35 (p. 179). Is this huge obligation justified by the result? Sir Arthur answers the question in the affirmative. He says that although the total expenditure has indeed greatly exceeded any figure hitherto reached yet the burden of the Federal Debt, in relation to the wealth of the nation, is less than one-quarter of the British national debt, and the burden of taxation, which seems so heavy to American tax-payers, is one which Englishmen would thankfully exchange for their own, p. 189. And "the actual achievements of the present American Administration, although not startling, are substantial. The degree of recovery compares favourably with that which has taken place in the principal European countries," p. 190.

G. D. K.

THE TRIUMPH OF MEDIOCRITY IN BUSINESS, by Horace Secrist, Chicago, Bureau of Business Research, North-Western University, 1933, pp. XXIX+468. $3·00.

This book is an interesting example of the application of the inductive method to the study of economic problems. Deductive method has helped to build up the framework of economic theory but any important advance now in this branch of knowledge must largely be dependent on statistical induction. The book under review is an illustration of the way in which statistical methods can be used for the advancement of economic theory.

The author starts out to investigate the type of business unit which has a tendency to persist and comes to the conclusion that "mediocrity tends to prevail in the conduct of competitive business." The study is based on expenses and profits of a large number of firms, extending over a period of 10 years. The firms represent different fields of business and include 47 department stores, 120 retail clothing stores, 437 retail hardware stores, 115 wholesale grocery stores, 899 banks and 154 railroad companies. The study is broad in scope and its conclusions should be of special interest on this account.

The statistical study deals with a number of ratios relating to these firms as, for example, net trading profit to net sales, total expenses to net sales, gross profits to net sales, net profit to gross profit and net earnings to earning assets. The conclusions to which the study of these ratios leads are that if a concern has a ratio in any year far removed from the average then there is a strong tendency for this figure to move towards the average in subsequent years, that ratios far removed from the average move more rapidly towards the normal figure than those which are nearer to the average and lastly the fact that no concerns remain in the marginal position year after year. The fact that these ratios show a tendency to convergence towards the average leads the author to conclude that mediocrity triumphs in business.

It is, however, necessary to point out that the author has advanced no evidence to show that this average itself does not change from time to time. The tendency to cluster round the average may be due to all the firms coming up to the standards of the best by imitating methods which originally gave an abnormally large profit only to a few. If that be the case, the title seems hardly justified because there may be constant levelling upwards to improvements and methods introduced by superior skill. From the statistical point of view also a similar criticism is justified. If the marginal ratios alone are studied they will constantly move towards the average because they have nowhere else to move to, but on the other hand central averages will have a tendency to move towards the margins. So that it is risky to base the conclusions of convergence merely on the movement of marginal ratios when it is possible that the central ratios will show an opposite tendency to divergence from the average.

B. N. K.

"REVIEW OF THE ECONOMIC COUNCILS IN THE DIFFERENT COUNTRIES OF THE WORLD," prepared for the Economic Committee of the League of Nations, by Mlle. Elli Lindner, Docteur ès Sciences économiques, published by the League of Nations, Geneva, 1932, pp. 105, price 3 shillings or $0·75.

This unique publication is the result of the learned author's indefatigable labour in collating, completing and working up 'the information collected from its members and from other competent authorities' by the Economic Committee set up by the Council on the recommendation of the twelfth Assembly which considered the report of the Second Committee on the Italian Delegation's proposal 'to seek the most appropriate means of providing for the direct representation of national economic councils within the League of Nations.' It embodies within its covers 'as full and accurate information as possible on the existence, powers and operation of economic councils or similar bodies in the various countries, as well as a systematic classification designed to show the various forms taken by these institutions in the different countries, to reveal the analogies and divergencies prevailing, and to define their rights and duties, their composition, organisation and methods of work. It also deals with the position of economic Councils in regard to Parliaments, Governments and other advisory bodies, and, finally, their share in the exercise of certain legislative and executive functions within the framework of the constitution.'

The work under review contains valuable monographs concerning the economic councils of the Union of South Africa, Argentine, Brazil, Chile, Cuba, United States of America, Uruguay, China, India, Japan, Australia, New Zealand, Austria, Belgium, United Kingdom, Bulgaria, Czechoslovakia, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Irish Free State, Italy, Latvia, Lithuania, Luxemburg, Netherlands, Norway, Poland, Portugal, Roumania, Spain, Sweden, Switzerland, Turkey, Union of Soviet Socialist Republics and Yugoslavia. A bibliography, synopsis and addresses of economic councils in the different countries of the world have been wisely appended to the work and they greatly enhance its value.

As classified by the Madamoiselle these economic councils may be divided into two main groups.

The first group comprises the economic councils of France, Germany and Italy, which exercise an effective influence on the national economic policy, possess the right of initiative and co-operate in preparing Bills of an economic character before they are placed before the Parliament. The French and German economic councils are simply advisory bodies but the Italian Council of Corporations can, in certain circumstances, take decisions, though its powers are limited by the right of veto held by the Prime Minister.

The second group includes a large number of various bodies consisting of economic experts or representatives of various professions invited by the Government or by a member of the Government to give their opinions on questions affecting the national economy generally or on special questions a study of which is of particular interest to the economic life of the country. It is, thus, clear that so many countries do not have institutions which can be properly called economic councils and even in

countries where they exist, the diversity in their constitution, functions and importance robs them of so much of their usefulness. In order that they may effectively participate in the work of the League of Nations, specially of its technical bodies, it seems necessary that there should take place a parallel development of such institutions in all countries more or less on the same footing as regards their composition, functions and rôle in the economic life of the country.

The author informs us in the preface that the work under review is the result of researches for many years and that every possible source of help has been availed of in its preparation. The result should, therefore, fully justify the claim of the author to the fullness and correctness of the information contained in this piece of research work. For the benefit of our Indian readers the paragraphs dealing with India on page 21 of this work are reprinted here:

" India has been so exhaustively treated in Sir Arthur Salter's report, to which several references have already been made, that nothing further need be added.

In 1931, an *Institute for Economic Investigations* and an Office for Statistics and Economic Research were founded by the Government of the Bombay States . . . . .

The Institute consists of a chairman, a vice-chairman, an accountancy expert, a representative of the Finance Department of the local authority, two representatives of agricultural interests, one stockbroker, one native banker, representatives of the Chamber of Commerce of Upper India and of the Chamber of Commerce of the Bombay States, one representative of each of the five Universities in the Province, the Director of Industry, the Director of Agriculture, the Secretary of the Co-operative Societies and the Director of Statistics, who, in addition to being a member, acts as Secretary. The first eight members are nominated by the Government, and the others by their organisations, the last four are *ex officio* members."

We, who are living so near the 'Bombay States' never before this date learnt of the wonderful changes that had taken place in them or of the existence of 'five universities in the Province' and are greatly surprised at our own ignorance of the local conditions. We are very thankful to Dr. Elli Lindner for placing such 'up-to-date,' information at our disposal. The learned author is a well-known authority on the subject and we feel that it was unnecessary for her to mention the name of Sir Arthur Salter just in the beginning for further support.

The work is a creditable piece of research work and deserves to be read widely. Just as people in India find so many new things about their country to learn from the book, so possibly readers in other countries may also find many such things to learn about their native lands. We wholeheartedly recommend this work to the general readers for a careful perusal which it deserves. The printing and paper are good and leave nothing more to be desired in that direction.

S. P.

PRINCIPLES OF COMPANY LAW, by Alfred F. Topham and A. M. R. Topham, pp. xlvii+432+49. Price Rs. 5-10. Butterworth & Co. (India), Ltd., Calcutta.

Our Indian Companies Act of 1913 is based on the English Companies Act of 1908. Many of the sections of the English Act have been bodily incorporated in our Act. The English Act was improved in 1929 and we understand that ours is on the anvil.

Topham's Company Law incorporates all the changes effected recently. It is a popular text-book on the subject which is proved by the fact that the 1934 publication is the IX edition of this book. The book has a limited size and scope and cannot be said to be an exhaustive commentary on the subject like the Palmer's Company Law or Palmer's Company Precedents, or like the Rustamji's Indian Company Law, but it is certainly a very helpful guide to students. It is prefaced by a long list of leading cases some of which are briefly discussed in their proper sequence. At the end of the book a comparative table gives the corresponding sections of the Acts of 1908 and of 1929.

K. L. GOVIL

AN ECONOMIC SURVEY OF KALA GADDI THAMMAN (CHAK 73 G.B.), a village in the Lyallpur District of the Punjab: inquiry conducted by Mr. Randhir Singh, under the supervision of Mr. W. Roberts, B.Sc., 1932; price Rs. 4; published by the Board of Economic Inquiry, Punjab (The Punjab Village Surveys No. 4).

This volume contains 200 pages of historical and contemporary data about the village Kala Gaddi Thamman. The inquiry is the result of over a year of careful study. To the general reader the volume might appear as devoid of any practical interest, but from the academic viewpoint, the value of the inquiry cannot be exaggerated. Long after the twentieth century closed, the administrators and legislators of India would surely look on these investigations with the same thankfulness with which present generations appreciate the work of Dadabhai Naoroji and Gokhale. But one wonders if this necessarily means that the contemporary administrators and legislators should not benefit by perusing these volumes. Also, the experience of the Board should persuade it to reduce the time allowed for such inquiries to six months at the most. Mr. Randhir Singh and Mr. Roberts both deserve the thanks of the workers in this field for the great trouble they have taken in compiling the data.

S. K. I.

ECONOMICS OF FOOD GRAINS IN KASHMIR, by J. L. K. Jalali, M.A.

This book was written in 1928 and brought out in 1931. It is understood that the author is bringing out a more up-to-date edition. From the contents of the present work the main features of the rice situation in Kashmir emerge in broad outline. Rice is the principal food of the urban population in Kashmir. The Rice market is dominated by a control department of the state government which secures its supplies partly by way of revenue payment in kind and partly by more or less enforced sales. Some real control is exercised over the private dealers in rice. The justification for these medieval measures appears to be that the total supply is inadequate, that there is cornering by private dealers, and that the frequency of famines makes a state regulation of supplies desirable. A study of the book would, however, show that this reasoning is for the most part, unsound. Equitable and elastic cash assessments, free dealing in all commodities, development of transport and marketing facilities, the construction of engineering works which will reduce the prospect of famines and a general supervision of trade to see that a competitive market is established appear to be plainly indicated.

Most of these, we understand from the book, were indicated by British officers whose services were lent to the state at different times. Unless all these reforms are undertaken together and are steadily pursued the problem of inadequate supplies, fluctuating revenues and recurring famines will not be permanently solved. The comparatively isolated position of Kashmir and its peculiar physical features indeed create special difficulties. But the lessons of economic transition all the world over are so clear in this respect that it is a matter for surprise that such pressing reforms as herein mentioned should have remained comparatively untouched till now. We are looking forward to the fresh edition of the work with great interest and hope that during the last few years considerable progress towards free trade and equitable revenue has been made.

D.G.K.

PROBLEMS OF TRANSPORT CO-ORDINATION IN INDIA, by Mr. S. K. Guha, B.A. (Price Re. 1).

The problem of rail-road competition is a universal one. It is not confined to India alone. In fact, the problem is not so serious here as it is in the industrially advanced countries, like Great Britain, U.S.A., Germany and France. The present economic depression, resulting in the reduction of traffic, has made it all the more intense and severe. Generally speaking, it is the railways that feel aggrieved. Their main contention is that road traffic is subject to few restrictions; that it has not to pay anything direct for the way and its maintenance; and that it takes away only that portion of the traffic which pays most. The railway rates are based on the principle of 'what the traffic will bear.' If the roads take away the upper-grade traffic, who will finance the lower-grade traffic?

In most countries new restrictions have been imposed on the road traffic as the State cannot otherwise divert traffic. The railways have also tried to set up their own house in order. They have effected economies under stress of competition and have provided better facilities and comforts for the traffic.

In India, unlike Great Britain, railways are mostly the property of the State. Consequently the State has a dual personality. Sir Frank Noyce, Member in charge of Transport, remarked the other day, "we may be forgiven if at times we appear to over-emphasize our point of view and seek to safeguard our financial interests." Roads in India are the property of the local governments.

The Central Government appointed a Rail-Road Committee in 1932. This Committee pointed out the evils of rail-road competition, especially in short distance passenger traffic. Later on, in 1933 the same government appointed a Rail-Road Conference which made useful suggestions for coordination of traffic. The Central Government has now appointed a Transport Advisory Council of Central and local interests.

This little book under review is a compendium of a course of four lectures delivered by Mr. S. K. Guha, at the Sydenham College of Commerce and Economics. The author has given a short history of railways and roads in India in a popular style and made some useful suggestions. He is in favour of a permanent co-ordinating body. He writes, "A permanently constituted authority of the type of the Inter-States Commerce Commission in the U. S. A. with legal authoritative powers of control in both inter-provincial and intra-provincial transport matters, and independent of political influence either from the centre or from the provincial governments, would be necessary for purposes of securing proper co-ordination. This conclusion is unavoidable irrespective of the future policy of the Government of India with regard to railways."

Fortunately the problem has received the attention of the Government and the people before it could assume very serious proportions. We hope under the new constitution we shall have an independent Ministry of Transport that should be able to tackle this problem. In fact, river transport in India is of the bygone days and the air transport not sufficiently developed. The effective competition is between the railways and roads only and that too, only in short distance passenger traffic. We are not in favour of too many bodies. The provinces, under the new constitution, will be autonomous. Let us see how they develop their resources.

K. L. Govil

THE HARIJANS IN REBELLION, by C. B. Agarwal, M.A. (Cantab.), Bar-at-Law. D. B. Taraporewala Sons & Co., pp. 121. Re. 1-8.

This booklet is an English version of the principal contents of a well-known Marathi book on the subject of the removal of untouchability. The peculiarity of social reform in this part of the country has always been an insistence upon proving to the hilt every new suggestion for reform and its adoption without a formal break with the so-called orthodox society. In this way a number of social reforms such as raising the marriageable age of girls, female education, abandonment of a number of obsolete rituals have already been brought about. It is true that in the heyday of controversy intense passions are roused leading sometimes to most regrettable incidents. But when they protest loudest they are the least convinced of the strength of their position and in due course the new reforms are unostentatiously assimilated.

This experience has been illustrated once again by the attitude towards the untouchability problem that Maharastra has evinced. In fact untouchability in public places in the urban areas does not exist to-day. All are agreed that the so-called untouchables should have complete civic equality. But when an attempt is made to utilise the occasion to make a breach in the traditional religious practices of a large class of people, which in no way hamper the smooth working of civic, social and economic life of the community it is necessary to exercise caution. You can bring about essentially political reform by an essentially political measure. But social, and in particular, religious reform must be a result of long and arduous labours on the part of religious workers. Conversion rather than coercion is the instrument of social and religious reform. On the main issue of untouchability this is the view that the present book is written to support and to all interested in the problem it will be a very interesting study.

The objectionable practices of the 'untouchables' themselves are so inherently related to their age-long degradation in Hindu society that a radical change in the attitude of caste Hindus towards the Harijans is an essential preliminary to the removal of the social evils of the latter. These latter are a very real obstacle in the way of India's economic and political reform. Enterprise, adaptability and organisation are necessary for success in modern business. By their inherited skill, patience and industry many of the Harijans are best equipped to utilise present-day opportunities for the remunerative utilisation of the nation's resources. Indeed in a few cases fairly flourishing trades are being run by gentlemen who belong to the erstwhile untouchable class. But unless social and educational reform has brought within its pale a large section of the Harijan class this healthy movement will not grow. The author is conscious of this, and he has indicated a number of ways in which the Harijans can help their own reformation. It must, however, be stated that the process of spiritual degradation of the Harijans as a class has gone on for such a long while and the Hindu community as a whole is so directly responsible for that process that a radical movement for reform run by enthusiastic leaders of the caste Hindus can alone serve as the lever to lift the Harijans from their depressed position.

Even politically, the securing for the Hindu community as such the support of the Harijans against some other community is by no means the

most important aspect of the matter. The great need is to make the Harijans politically conscious and to inspire them with a feeling of patriotism. But why should they be patriotic to-day, even if they are sufficiently conscious of their civic duties? What is the country offering to them by way of special and economic justice for which they should feel inclined to love the motherland and to sacrifice for it? The author is conscious of this deeper significance of the issue. The title of the book is 'The Harijans in Rebellion.' Unless enough zeal for reform is mustered by the caste Hindus themselves there will have to be a good deal more of 'rebellion'—social and intellectual—before economic, political and social health is restored to the Hindu community. We recommend the book for careful perusal to all interested in the Harijan problem.

D.G.K.

THE MILK SUPPLY OF LAHORE IN 1930: Inquiry conducted by Roshan Lal Anand, M.A., under the supervision of Professor A. C. Aggarwala, B.Sc., M.R.C.V.S., Punjab Veterinary College, Lahore, 1933; price Rs. 2, published by the Punjab Board of Economic Inquiry (Rural Section Publication No. 28).

This highly interesting volume contains 140 pages divided into seven chapters and four appendices and a glossary. Such highly scientific investigations do not admit of detailed review—unless the reviewer determines to reproduce the work in other words. This is a fitting successor to the work done in the Lyallpur Agricultural College by Principal Johnston and one of his Professors. The Punjab Board of Economic Inquiry have been supplying first class material for the lawmakers and administrators of the Punjab—a privilege unique in its kind in India. Mr. Roshan Lal Anand and Professor A. C. Aggarwala deserve to be congratulated on the great pains they have taken in collecting the data and the penetration they have proceeded with in compiling the results.

S. K. I.

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THE PRESENT POSITION OF JUTE IN BENGAL

BY

V. Roy

Calcutta.

The wave of word's economic depression has markedly affected the whole of India, and Bengal in particular. Added to this, the linking of the rupee with sterling at 1-6 has undesirably lowered the price of agricultural products of the country and has considerably shrunk the purchasing power of the proverbially poor Indian ryot. There are other causes in operation as well, and their effect is no less keenly felt. In spite of occasional outbursts of optimism in quarters that often pass off as wise, there has appeared little sign of improvement in the condition of the Indian agriculturist during the last five years or so.

In Bengal where, unlike Bombay, agriculture preponderates, jute holds a unique position. Though the market for jute is world-wide, it is grown and developed nowhere else except in Bengal, which consequently holds a monopolistic position, notwithstanding many fruitless scientific efforts in other parts of the world to manufacture a suitable synthetic product. Not many years ago the cultivator of jute was in clovers; the Marwari middleman amassed immense wealth by speculation of this golden fibre; and the jute-mills, situated in and around Calcutta, paid unprecedented dividends to their shareholders, maintaining at the same time huge reserve funds. But to-day the situation

has entirely changed. The position of everyone connected with this once booming industry has become so precarious that the Local Government has been compelled to interfere and to find ways and means for the improvement of its position. It may be safely predicted here that unless some effective means of amelioration are forthcoming, the condition of the ryot will ere long be most heart-rending.

About 25 lakhs of acres of land, spread over more than a dozen districts, are utilised for the cultivation of this fibre, and the work is done by petty farmers. A considerable proportion of jute-zone lies in East Bengal. The primary reason for this unusual fall in price is due no doubt to the slump in the world market, for which its demand, once so keen and buoyant, has been brought down to an unheard-of level. Not many years ago the activities of jute vibrated the whole atmosphere of commerce and industry in Bengal. But to-day the mills are working part-time only, and even then the manufactured product is in considerable measure left in stock for want of an effective market. Despite this pitiable condition of the industry, the ryot, improvident and short-sighted as he is, continues to cultivate the same quantity of the fibre as in the previous years of prosperity always in the hope of seeing better days. The result is obviously disastrous. Year after year in addition to the falling prices a large stock of raw materials is left unsold which again works in a vicious circle to pull the price further down. The price of jute has come down to such a ridiculous level to-day that for want of effective sale more than a quarter of the total amount of raw product is lying idle and rotting with the farmer.

It may be incidentally mentioned here that the former paternal individualistic outlook of our governments is gradually changing. In Western countries that transformation is now a matter of history. With the gradual percolation of socialistic ideals the state in the different countries of the West has identified itself closely with the economic welfare of the nations concerned, and various measures are formulated by the respective governments for the furtherance of the cause. The revolutionary experiments by President Roosevelt in the U.S.A. are watched with keen interest by the whole world. In our own Home tariff regulations and bounties have been introduced, though still as experimental measures, with a view to offer practical assistance and encouragement to the different industries of India. It is also noticeable of late that pressure of public opinion, when expressed with intelligence and cogency, often induces our government to the desired change of policy.

In Bengal, like the Punjab, the devastating impoverishment of the agricultural community compelled the Local Government to appoint a Rural Development Commissioner to examine the problem and to find suitable measures for rural reconstruction. As is but natural, jute is the first problem that the newly-appointed official was engaged in tackling. The problem is, however, so vast and complicated that an early solution seems to be impossible. Time is another important element, for now that the present harvesting season is over, no accurate survey can be made of the crop of 1935. And without a satisfactory survey of the amount of crop and the area of cultivation, no definite remedial measures can be introduced, though the only effective method to improve its position is to raise the price of jute. This can be done in his opinion, only by the restriction of the crop.

This restriction can be effected in three different ways: (1) by purchasing the surplus crop on behalf of the Government and destroying it; (2) by withdrawing the surplus amount of seeds from the market; or (3) by limiting the area of cultivation. The first proposal requires a heavy outlay of capital, necessitating at the same time legislative enactment. Roughly, the surplus stock has been calculated on the bases of the two previous years at 30 lakhs of bales, the purchase of which will at the present rate of Rs. 25 per bale of 400 lbs. cost the Government about 7½ crores of rupees. On the face of it the proposition is altogether impracticable. The second proposal, namely, the destruction of surplus seeds is equally out of the question; so the only feasible plan that is left is the shrinkage, voluntary or compulsory, of the area of cultivation.

For sometime past a considerable section of the public has been clamouring for raising the price by compulsory restriction of the total area of cultivation. They propose to compensate the ryot at the rate of Rs. 15 per acre, and penalise him by an act of legislation for non-compliance of regulations. Out of 2½ millions of cultivated area, nearly 500,000 acres will have to be wiped away in order to bring the price of jute to a fair level, and the nett cost, in their opinion, would amount to no more than Rs. 85 lakhs. In order to meet the charges an additional tax of Re. 1 per bale on mill consumption as well as on export has been suggested. This tax is expected to yield about Rs. 90 lakhs which would be more than sufficient for purposes of compensation as well as to meet the expenses of the staff. The painful fact which is, however, totally lost to view here is that jute is a subject for Central Revenue, and any local interference would require the sanction of New Delhi, which, as

is apparent, would not be easy to obtain. Hence the Development Commissioner, in a Conference of the Press representatives of Calcutta on October 1 last, advocated the scheme of voluntary efforts which he hoped would offer the same amount of desirable relief. The cost in his estimate would not exceed Rs. 50,000, a large proportion of which has already been promised by some associations connected with the industry.

According to his scheme voluntary associations would be set up in co-operation with local bodies as well as officials. The duty of these societies would be to induce the ryot by intense publicity as well as persuasion to restrict their area of cultivation. In this way no less than 500,000 lakhs of acres could be withheld from the cultivation of jute at a very cheap price, and the result would benefit the cultivator by a proportionate rise in the price of jute. This would be the ryot's first reward for the sacrifice. In addition, the R. D. C. has also suggested various other alternative crops which could very satisfactorily take the place of the uncultivated land. Linseed, groundnut, rice, sugarcane and tobacco could easily and profitably replace jute in the different surplus lands according to the quality of the soil. Linseed and groundnut have world market and are expected to yield good income. There are other minor crops such as potato, pulses, vegetables and fruits, peas, onion and garlic which might also be successfully cultured. There is no fodder land practically in the whole of the province, and fodder has been suggested as an eminently needful crop at some of the surplus lands, which would help in maintaining a higher standard of development of Bengal cattle, so markedly emaciated and lacking in vitality.

Unfortunately the press and the public of Bengal are not at all enthusiastic over the present scheme. In their opinion Government does not seem to be serious about the business, and all these formalities are mere eye-washes just to placate public opinion. The noticeable feature about it is the half-heartedness of the Government with which they have interested themselves in alleviating the distress of the people. The alien aloofness, as they state, is still observable in a marked degree, and lack of interest in and practical co-operation with the needs of the people would end, as has been the case in more than one instance in the past, in the failure of the measures adopted for the amelioration of the economic distress of a very large section of the agricultural population. Moreover, the R. D. C. does not seem to be a man of vision and practical sagacity, and the address that he delivered at the press conference lacked vigour

and colour. In their view this sort of non-committal and irresponsible measure would end in dismal failure.

It must be stated here with truth that the alternative proposal put forward by the Press, namely, for legalising the minimum price of raw jute, does not lend to much encouraging hopes. No doubt a similar measure adopted for sugar has so far proved of great benefit to the sugar cultivator. But the atmosphere in Bengal is different, and considering the helpless, isolated position of the cultivator of jute and the artful drudging which the middleman is capable of, such a regulation could never be carried out to the satisfaction of the ryot, unless a disproportionately large staff is raised in order to watch his interest at close quarters at every jute-growing area. Such an apprehension of the government, it is needless to state, is entirely justified, for which reason the scheme, so enthusiastically proclaimed by a section of the press, has never been given any serious consideration.

It is a great pity that none of the parties, neither the wealthy zemindars, nor the affluent middlemen nor even the manufacturers had ever given any thought on the probability that might occur of a critical time for jute. They enjoyed the fruits of this golden fibre, and were constantly dreaming of more. The nemesis has now come to take its toll.

The manufacturing industry, puffed up so long by large profits, signally failed when there was time to take count of the probable rainy day. It may be stated here that most of the industrialists engaged in jute industry are closer personalities from the Highlands of Great Britain, whose clogged perseverance, no less than business acumen, brought unexpected prosperity to the industry at one time. They manufactured rough gunnies, hessian and canvas to meet the world's trade, but the potentialities of jute as a medium for cheap fabric never entered their mind. A large proportion of the world's population, not to speak of India alone, is inadequately draped, because the masses usually do not possess the purchasing power for cotton or silk. Jute fabrics could have significantly replaced cotton in many sphere of everyday life. But the manufacturers lacked the necessary vision, and were satisfied with a limited market. If they had followed the analogy of the German *Central-Stelle*, and severally allotted their contributions for the establishment of experimental laboratories where scientific investigators had been engaged in finding various other uses of this golden fibre, their mills would not be lying idle to-day. If jute had been utilised for the manufacture of cheap

cloths as could be available to the masses not only in India but in other parts of the world where they are economically poorer, the industry would still be pulsating with life and offering ample returns to the cultivator. As the matter stands at present, it seems Bengal would have to experience a period of grave crisis for some time, before recovery takes place. It is doubtful how far these voluntary associations, with little conviction and less enthusiasm such as these exotic bodies can engender, would be able to persuade the ryot towards rationalization of his cultivable area, as the latter is proverbially so conservative and clings to his ancestral ways with imperturbable tenacity.

—V. Roy

WORLD DEPRESSION AND INDIA

BY

P. S. Narayana Prasad, M.A.

Andhra University.

It is a commonplace that the present economic depression, unlike many other previous ones, is international in character and much longer in duration. The effects of the depression are not confined to one continent, or one industry, or a set of industries or trade but involved all the countries to a greater or less degree according to the nature of the economic system which each of them possessed. Nearly all the agricultural countries came in to share a good deal of the trouble, during all the years of the depression since 1929—and some even earlier—and they were worse off relatively to countries which depended on manufacturing industries, in the matter of fall of prices, reduction in quantity as well as value of trade, dislocations as between costs and prices, increase in the burden of contractual obligations, etc. In this article an attempt will be made to trace the course of the depression and its effects on India,—on her production, prices, trade, finance, currency and wages. For an attempt of this kind, therefore, of course no reliable statistics worth the name are available but the best use will be made of such meagre data as is available.

In tracing the effects of the depression on India an attempt will also be made where possible and necessary to compare the situation with that obtaining elsewhere in order to render in proper perspective the intensity and severity of the depression in India relatively to the effects it produced on other countries. It is, however, not implied that the same causes have been responsible in each country for bringing about the depression. Nor is it also implied that the remedies to be applied are the same in all the cases.

Prices.

One of the earliest effects (as well as the causes) of depression is the decline in prices. The fall in prices started about the third quarter of 1929, though agricultural prices started the process even a little earlier than that. It has been remarked

that in India specially, there was a continuous decline in wholesale price levels since 1918.[1] But a decline in price levels after 1918 is only to be expected in view of the artificial rise in prices during the war time. Moreover, conditions of economic activity between the period 1918—24 were so different in different countries owing to inflation or deflation, or the existence of depression in some and boom activity in others, that movements of prices in different countries since 1918 are not strictly comparable. The condition in various countries between 1913 and 1924 were so chaotic, that a comparison between 1918—29 becomes absolutely impossible, if not also futile. On the other hand, however, since 1925 the movement was much more uniform and general—internationally—than during any other time since the post-war depression. Stabilised currencies and exchanges and a marked tendency towards expansion of production and trade marked this period. Capital markets were characterised by easier money conditions. So if a comparison in the movements of price levels between 1925—29 were instituted, price movements in India would appear to be of no great concern compared to those obtaining elsewhere as can be seen from the following table:

Index numbers of wholesale prices of some countries between 1925—29. [Adapted from the Monthly Bulletin of Statistics of the League of Nations.]

	India.	United Kingdom.	U. S. A.	Japan.	Germany.
1925	159	159	148	202	142
1926	148	148	143	179	134
1927	148	142	137	170	138
1928	145	140	139	171	140
1929	141	137	137	166	137
Percentage decline between 1925—29	11·3	13·8	7·2	17·8	3·5

It might be noticed that in India the price level did not fall as much as it did in the United Kingdom or Japan, nor was it so

[1] Prof. Chablani: In a paper read before the Sixteenth Indian Economic Conference: "Indian Journal of Economics," Jan. 33, p. 441.

stable as in Germany. A slow, gradual movement of prices up or down is not harmful to trade because contracts in trade, etc., do not extend over very long periods, and what is of importance is not the slow change of prices either way but the sudden and great changes.

The decline in prices in India on a rapid scale—as in almost all other countries—was in evidence only since 1929 and the extent of the decline in prices in India seems to be very great. The following table indicates the downward movement of the wholesale price index between September 1929 and March 1933:

	Wholesale Price Index.		Wholesale Price Index.
Sept. 1929 ..	.. 141	Aug. 1929 ..	.. 92
Dec. 1929 ..	.. 134	Dec. 1931 ..	.. 98
Jan. 1930 ..	.. 131	April 1932 ..	.. 92
April 1930 ..	.. 123	June 1932 ..	.. 86
Aug. 1930 ..	.. 114	Aug. 1932 ..	.. 91
Dec. 1919 ..	.. 100	Dec. 1932 ..	.. 88
April 1931 ..	.. 98	March 1933 ..	.. 82

There is thus a decline of 44 per cent by March 1933 compared with September 1929. Commodity prices declined either more or less. The percentage decline in the price level of cotton manufactures was 40. Raw cotton declined by about 48 per cent. Jute manufactures declined in price by 44 per cent and raw jute by 58 per cent. But the greatest decline is to be noticed in the prices of cereals and oilseeds. The price of rice came down by 58 per cent, of wheat by 41 per cent and of oilseeds and tea by 59 per cent and 53 per cent respectively.

A rapid and large fall in prices of this kind has a profound influence on the distribution of income. People getting fixed money incomes receive a much larger share of the national dividend in the shape of more commodities for the same amount of money as before. Moreover, in a country like India where the government has to make large transfers of money for debt and government charges, and where the people also are heavily indebted the obligations contracted during a period of comparatively higher prices become heavier in proportion to the fall in the price level.

In order to appreciate the extent of dislocations of this kind caused by the fall of prices a comparison with the same phenomenon as it happened in other countries will be of some use. The following table gives some idea as to the depths to which price levels came down during the depression:

Wholesale Price Indices of certain countries. (Base 1913 or 14 = 100)[2]

Country.	Peak in 1929.	March 1933.	Date of the lowest point.	Percentage Decline. The lowest point.	March 33.
India ..	149·0	83	III/33	44·3	44·3
Egypt ..	125·0	70·0	III/33	44·0	44·0
U. S. A. ..	138·2	86·2	II/33	38·0	37·6
Canada ..	153·3	100·6	II/33	35·2	34·4
Japan ..	172·2	134·0	VI/32	35·8	22·2
England ..	139·6	91·1	I/33	34·8	34·7
Czecho-Slovakia	964·0	647	III/33	32·9	32·9
Australia	170·8	122·5	II/33	28·5	28·3
Chile ..	198·8	343·4	X/31	28·4	72·7
Newzealand	148·3	129·6	I/33	15·6	12·6
Peru ..	189·0	174·0	IV/32	13·8	7·9
Argentine	129·8	113·0	III/33	12·9	12·9
China ..	107·4	107·1	I/29	5·3	·3

In the above table the countries which are still on the gold standard have been left out. As amongst the other countries the wholesale price index of India declined most. The lowest point reached by the price levels was in India, and even by March 1933 when prices in other countries showed some tendency to rise the price level in India was still moving down. This table is, however, of interest only from the point of view of the

2 World Economic Survey, 1932-33. League of Nations, p. 39.

lowest point reached. But during the whole period of the depression these conditions in India were equally bad. If the percentage decline in price levels at different periods is considered, then also Indian prices were uniformly bad during all the years between 1929—33, while, elsewhere they were not so. The table below illustrates the point:

Percentage decline in wholesale price indices at different periods since 1929.[3]

		India.	Japan.	U. S. A.	Germany	United Kingdom.	Australia.	Canada.	France.
	1930	18	18	9	9	12	10	9	11
	1931	31	30	23	19	24	16	21	30
	1932	35	32	32	29	25	14	30	32
April	1932	35	30	31	28	25	..	..	29
Aug.	1932	35	30	32	31	26	..	..	34
Dec.	1932	37	16	34	33	26	..	..	34
March	1933	41	19	37	32	27	17	43	38

In the above table precentage decline in price level in India is the greatest at any of the above-mentioned periods as compared to the percentage decline in price level in any country except in the case of Canada and that also only in the month of March 1933. So far, therefore, as decline in prices goes, the percentage decline in India is the greatest as compared to most other countries and this is true not for a few months, or at one particular point of the depression, but all along since 1929 to March 1933. The severe fall in prices brought about in every country the ugly effects which come in the wake of plunging price levels and in India, it being most severe, the consequent effects also in several cases were most serious. We will first examine the effects of this fall on our production, both agricultural and industrial.

3 The above table was calculated with the help of the wholesale price indices published by the League of Nations' bulletin of Statistics and are correct to the nearest unit.

Production.

Under the stress of the depression, each kind of production fared in a different manner. In almost all the countries the industrial production, owing to the very circumstances under which it is carried on, showed a more or less favourable response by contracting output and thus helping to bring about a rise in prices, though this involves keeping idle for some time the various factors of production. On the other hand, agricultural production cannot be contracted. There is, if anything, a tendency to produce more in order to make up for the losses sustained by a sagging price level, and this tendency is more pronounced in countries where farming is not carried on as a business by itself as in the new countries, like Canada, U.S.A., Australia and others, but by small peasant holdings as in most of the Asiatic countries. The table given underneath substantiates the general statements. This table shows how the industrial production in the world, as a whole, responded by contracting output whereas the general production of foodstuffs recorded some increase. In the case of industrial raw materials also, there is a slight contraction in production, the indices moving more or less in sympathy with the indices of industrial production:

Indices of World Production[4] (Average 1925—29 = 100).

	1925.	1929.	930.	1931.	1932.
[*Including* (*U.S.S.R.*)]					
World production of industrial raw materials	92	111	102	91	79
World production of food stuffs	98	103	103	102	104
World production of all agricultural products	98	104	103	103	102
World indices of industrial production	92	111	100	90	77
World production of non-agricultural products	90	114	101	86	73

In India also, in general, production of foodstuffs was on the increase while the production of industrial raw materials

[4] World Production and Prices, 1931-32 (League of Nations).

recorded some contraction. The case of a few industries in India was somewhat different from those elsewhere owing to several factors coming into operation in their favour and overcoming to a great extent the blighting influence of the depression.

In the case of production of foodgrains in India there was a slight increase in some cases as may be noticed in the following statistics of production:

	Average of 3 Yrs. ending 29-30.	30-31.	31-32.	32-33.[5]
Rice: (000 tons) ..	30,504	32,198	32,770	..
„ India excluding Burma ..	25,512	27,055	28,588	30,655
Wheat „ ..	8,912	9,305	9,312	9,120
Barley „ ..	2,301	2,392	..	..
Gram „ ..	2,976	3,367	..	..
Groundnut „ ..	..	3,154	2,697	2,386
Linseed „ ..	..	377	411	..
Rapeseed and Mustard	..	988	1,023	..
Tea (millions of lbs.)	..	433·2	391·1	394·1
Cotton: (bales of 440 lbs.)	..	5,224	4,064	4,516
Jute: „ million bales	..	11·3	5·6	5·8
Rubber in lbs. ..	..	24,351	..	..
Coal	..	23·8	21·7	..
	29-30.	30-31.	31-32.	32-33.
Indigo (cwts.) ..	14,400	12,800	..	..
Pig iron (tons 000)	1,390	1,099	1,408	1,250
Iron ore (tons 000)	1,376	1,140	1,070	..

[5] Source: "Indian Finance Year Book,' p. 141. Review of the Trade of India for 1931-32.

The above table is interesting from this point of view that in India, as in the world over, there has been during the years of the depression an actual increase in the production of foodstuffs as is evident from the figures of production of rice, wheat, barley, gram, linseed, rapeseed and mustard. On the other hand, industrial raw materials contracted in production as may be noticed in the figures of production of cotton, jute, coal, indigo and iron ore. To this extent conditions here moved more or less similarly with those in the outside world. Agricultural production, especially the production of foodstuffs, could not be reduced or even maintained at the same level. Specially in India, due to the absence of co-operative marketing or facilities for any kind of pooling or stocking of commodities, the agriculturist is bound to take whatever the wildest competition on the market determines for him. Thus, in this case a vicious circle is set up whereby a decline in prices brings about some overproduction and overproduction helps to further depress prices, though of course the limit of production is very soon reached. Again, in India where the margin between cost of production and the market price is very small comparatively to that in Australia or Canada or the Argentine, any slight contraction in price produces more evil effects on the farmer than in other countries in whose case not only the difference between cost and market prices is greater, but where farmers have got the savings of the past to fall back upon for some time. Any slight contraction in the price of commodities, which the agriculturist produces in India, takes away proportionately more from his hands and leaves with him, if not less of food-stuffs, at least, less money or the means for money, for paying rents, taxes, interest, etc. Again, due to the lack of possibility of any organised effort for voluntary schemes, for the control of agricultural production with a view to regulating prices, it is impossible in India, as it has been to some extent, however small, in other places, to reduce output though *ultimately* reduction of output can be no more a remedy than tightening the belt could be a remedy for hunger. However, over short periods, it has its advantages even as the tightening of the belt sometimes has the desired effect.

In the case of industrial raw materials also the slight contraction of production is not of any great benefit considering the heavy decline in the price levels.

On the other hand a few industries in India, not only maintained themselves very successfully during the depression

but actually recorded some increase in production. In the case of cotton manufactures there has been an increase in production in 1931-32 by about 18 per cent as compared to that of 1929-30. In the case of sugar, the heavy protective tariff which leaves a good margin for initial error encouraged the establishment of several concerns and procured very good profits for nearly all the existing concerns. In the case of steel industry production advanced from 412,000 tons in 1929-30 to 450,000 tons in 1931-32, while production of steel in every other country receded. All this is very encouraging if it is only viewed in the light of actual production. But it would be interesting to note the consumption side also. In the case of cotton, the *per capita* yardage of cloth available for consumption in 1930-31 came down to 9·49 as compared with 12·04 in 1929-30 and even though it slightly increased in 1931-32 to 10·4 it still remained below the level of 1929-30. In the case of sugar also, the actual consumption of sugar in 1931-32 was 982,540 tons, and it is estimated that in 1932-33 it might be 940,000 tons[6], *i.e.*, there will at least be no increase in consumption. In the case of steel industry, also, there was no increase in internal demand; on the other hand it contracted heavily.[7] Thus the expansion in these industries is in no way an index to the existence of relatively prosperous conditions and expansion is entirely due to the protective tariff, the advantage of a general 25 per cent surcharge imposed for revenue purposes and the popular protection offered by the propaganda for Swadeshi, etc. What is to be imagined, however, is the progress which these industries would have made but for the obstacle of decreased consumption and general trade depression. It is a matter for speculation, but still it appears to be better to speculate on what has been lost, rather than to be satisfied with what little has been achieved.

Trade.

The full blast of the depression was however felt in the foreign trade of India. The major part—almost the whole—of India's export trade being in agricultural produce and mainly those entering the world market, the prices fell very heavily compared with the price of imports of manufactures which are imported in return. This contingency could have been saved

6 "Indian Finance Year Book," p. 260.

7 Memorandum submitted by the Tata Iron and Steel Co., Ltd., to the Tariff Board.

only either by raising the internal price level or by checking imports or by exporting capital or its equivalent; and the former alternatives not being realised the last mentioned process saved the situation.

In the matter of her external trade, India occupied in 1929 the sixth place in world trade, being responsible for 3 per cent of the total trade of the world. But three years of depression reduced her to the 10th place, her percentage of trade being now only 2·6 while countries like Japan and Italy overtook her. So far as the contraction in foreign trade is concerned India may be said to be one of the worst sufferers. The following table conveys an idea of the shrinkage in value of the imports and exports of different countries:

VALUE IN 000,000 $s.[8]

	JANUARY TO JUNE Imports.				JANUARY TO JUNE. Exports.			
	1929.	1930.	1931.	1932.	1929.	1930.	1931.	1932.
India ..	479	405	276	183	610	521	311	181
Australia ..	333	257	97	78	349	211	191	140
Canada ..	665	544	353	212	577	438	292	197
Argentine ..	404	338	212	103	516	307	240	195
Brazil ..	219	148	75	56	223	185	130	93
Br.-Malaya ..	251	218	138	80	261	209	125	66
Newzealand ..	108	103	57	36	179	137	99	70

In the above table we have taken only the agricultural countries because, conditions in manufacturing countries are diametrically opposite to what they are in agricultural countries. The manufacturing countries have been able to command more imports with less exports. So it is only proper to compare the foreign trade of India which mainly constitutes the exports of raw material and the imports of manufactured goods, with the foreign trade of similar agricultural countries only. Such a comparison as has been made above, shows that the values of both import and export trades in all countries declined. If, however, the percentage decline in the value of exports and

8 Review of World Trade, 1931-32 : (League).

imports were equal, there would be no occasion for any concern. On the other hand, there is a lag in the percentage decline of the value of imports and that of exports in successive periods, unfavourably to the agricultural countries. The greater the lag between the two, the more is the need for either checking imports, in order to maintain the balance of trade, or for exporting capital in order to maintain the volume of imports. We will examine with the help of the following table this particular aspect:

The value of import and export trades of different countries in the first half of 1931 and 1932 expressed as percentages of the 1st half of 1929.

Country.	Import. 1929. Jan. to June.	Import. 1931. Jan. to June.	Import. 1932. Jan. to June.	Export 1929. Jan. to June.	Export 1931. Jan. to June.	Export 1932 Jan. to June.
India ..	100	58	38	100	51	30
Canada ..	100	53	53	100	51	34
Brazil ..	100	34	26	100	58	42
Brit.-Malaya	100	55	32	100	48	25
Newzealand	100	53	53	100	55	59
Argentine ..	100	52	36	100	47	38

The above table is calculated from the previous table and the figures are correct to the nearest unit. It shows the contraction in value of export and import trades in different countries in the 1st half of 1931 and 1932 compared with the 1st half of 1929. In each of the successive years, it may be noticed, India maintained the value of her imports at a high level as compared with any other country and the value of her exports shrank in each case, more than the value of the exports of any other country except that of British Malaya and that of the Argentine in 1931. In other words, the exports of each country which were worth a hundred units in 1929 were worth in 1931-32 much less than a hundred. India in this respect, with the exception of British Malaya in both the years and the Argentine in 1931 only, seems to have been the hardest hit. At the same time the value of her imports did not come down proportionately but remained much higher (proportionately) than that of any other country above mentioned. This peculiar strength is to be accounted for only by the large exodus of gold which has become

a normal feature of India's export trade since 1931. That shows that the country is not living on the current income but on saved up capital. The Finance Member both in his Budget speech in 1933 and on other occasions, instanced the fairly good maintenance of the import trade of India, as an indication of the comparative strength of the country's economic welfare. That interpretation can, however, be admitted only when we shut our eyes to the other side of the picture, namely, the almost unparalleled reduction in the value of her exports as well as the huge exports of gold. Almost all the countries considered above have been able to maintain a balance between their imports and exports, even when the decrease in value of their exports was not as heavy as in India, only by resorting to timely depreciation of their currencies and by giving such a generous dose of it as is enough to infuse some amount of new life into their dwindling foreign trade. By this means the imports have been checked sufficiently while the exports received some kind of stimulus. In India, however, the exporting away of reserve capital had been preferred to the restriction of imports. The other countries preferred the wisdom of cutting their coat according to their cloth while India had been made to live by eating away her reserves. With the hope of better times and revival, the consumption of capital has been allowed, and it should not be surprising at all if this bill, drawn on hope, is likely to be heavily discounted by experience. The balance of trade of India in merchandise only (*i.e.*, excluding dealings in treasure) is dwindling down year by year and the revival of normal conditions now seems to be as far off a possibility as it was last year or the year before that. The following figures tell a sad tale of the state of our balance of trade:

Balance of trade of India in merchandise only in lakhs of rupees.

1928-29	1929-30	1930-31	1931-32	1932-33
84,66	77,14	60,77	34,21	3,06

Now we will briefly take note of the situation of individual commodities on the import and export list. In the case of exports even the year 1933 had been no better in many cases. Both values and quantities have gone down still further and the bottom of the depression does not yet seem to have been reached. The following table demonstrates the decline in values and quantities of the principal articles of export of British India since 1928-29:

Table showing the value and quantity of principal articles of exports from British India.

	Value in lakhs of rupees.					Quantity				
	1928-29.	29-30.	30-31.	31-32.	1932-33.	28-29.	29-30.	30-31.	31-32.	32-33.
Rice	1,432	1,918	1,516	1,027	741	1.765	2.298	2.254	2.301	1,828
Wheat	169	21	195	15	4	115	19	196	21	2·2
Tea	2,660	2.601	2.356	1.941	1.715	360	377	356	341	379
									(Million lbs.)	
Groundnut ..	1,937	1.639	967	1,014	712	7.884	7,141	6.012	6.720	4.329
Linseed	331	572	541	153	91	1,567	2.482	2.566	1.203	722
Castor seed ..	246	214	156	150	124	1.213	1,064	910	1.040	859
									(Hundreds of tons.)	
Jute, raw ..	3.235	2.715	1.288	1,112	973	5,028	4.519	3.470	3.287	3,153
Jute manuf. cloth ..	3,164	2.970	1.686	1,045	1,024	15.683	16.505	12.710	10.211	10.117
									(Millions of yds.)	
Jute bags ..	2.493	2,189	1.462	1.094	1.116	4.977	5.223	4.340	3.885	4,151
									(Quantity in lakhs.)	
Cotton, raw ..	6.625	6.508	4.633	2.315	2.037	3,712	4.070	3.926	2.369	2.063
									(000 bales.)	
Raw skins ..	541	519	363	274	220	..	..	..	..	..
Hides and skins ..	405	270	178	91	63	..	..	..	..	..

A look at the columns of the table will reveal that in the case of all commodities except wheat, there was shrinkage in value between 1929-30 and 1930-31. Again between 1931-32 and 1932-33 all commodities recorded a fall in value except groundnuts. But the year 1932-33 is unique in this respect, that the export values of *all* the above commodities recorded a fall in value, and this is the year during which the Ottawa Agreement is 'in operation.' It may also be noticed that in these successive years the quantity exported did not fall off in proportion to the value in trade. In fact, in some cases an actual increase in quantity is noticeable as in the case of rice between 1930—32, of tea in 1932-33 in the case of linseed in 1930-31 in the case of groundnuts in 1931-32 and in the case of castor seed in 1931-32.

In the case of rice as also in the case of wheat the total overproduction in the world as a whole is to a great extent responsible for the depression, supply in this case being far too excessive while the demand remained more or less constant. In the case of rice the one main cause for the depression is the falling off in the demand for Burma rice owing to greater increase in production in Indo-China and Korea. The subsidised exports of rice from Italy and Spain also ousted the Indian rice from the European markets. Another factor may be the low price of rice made possible by the new-countries producing wheat both at a cheaper cost and on a large scale. This cheapening of the costs of production of wheat seems to have been also responsible for the curtailment, if not the extinction of the exports of wheat from India. Besides, production was undertaken in almost all the European countries and specially in Russia. In the case of wheat and rice, therefore, the future seems to lie in catering for the internal rather than the external markets and also for reducing cost of production by adopting more intensive methods of cultivation.

In the case of oilseeds, however, the high costs of production compared with what they are in the newer countries are partly responsible for the depression. In the case of tea also it is the external competition that has been mostly responsible for the depression. The restriction scheme now adopted seems to promise some betterment for the industry. It is in these two cases, however, that currency depreciation is likely to produce the greatest effect.

Jute is an industry whose fortunes depend not on the condition of production, as such, or on the absence of competition but

on the flourishing condition of trade and industry in general; and nothing else that could be done would be of any use.

In the matter of cotton the difficulty rests on the dependence of Indian cotton for markets in foreign countries, while the Indian mills have to import cotton from abroad. The production in such large quantities of short staple cotton and the dependence of a large section of population on this product is a standing menace to the economic prosperity of India. In the commercial diplomacy of the cotton trade in future, unless India makes the earliest and most vigorous efforts to supplant this crop and supplement its production by the production of large staple cotton, not only the producers of cotton but the Indian mills themselves stand to face grave risks. If the interests of the producers of cotton and the cotton-millowners are properly reconciled and developed, a major part of the nuisance and interference by foreign countries, such as that of Britain in the last century and of Japan in the present, are bound to be eliminated, from the internal economy of India. This is one of the fields wherein India can hope to be almost self-sufficient if only the various interests try to be influenced by a little more foresight, and a little less of self-interest. In this development of course the Government's share is bound to be great, but that is the crux of the problem also.

On the import side the situation is somewhat different. At least apparently the situation seems to be more favourable while in reality this ought to be a matter of very great concern. The following table shows the position of imports into British India:

Total value of principal imports into British India.

1928-29	1929-30	1930-31	1931-32	1932-33
2,53,31	2,40,80	1,64,79	1.26,37	1.32.58

The value of imports of course recorded a decline but it is nothing as compared to the decline in the value of exports. It is significant to note that the value of imports increased in 1932-33, compared with the previous year, while the value of exports in 1932-33 receded to Rs. 132,44 lakhs from Rs. 1,55,89 lakhs in 1931-32. This increase under the head of imports is mainly brought about by an increase in the imports of piece goods from Rs. 14,67 lakhs in 1931-32, to Rs. 21,26 lakhs in 1932-33 and by the increase in the imports of silk from 274 to 433 lakhs of rupees. There were slight increases in the value of imported hardware and woollens and glassware, and also under

precious stones and pearls from 45 lakhs in 1931-32 to 84 lakhs in 1932-33 (nearly double the value). Increases are also noticeable in the case of toilet requisites, haberdashery and millinery, earthenware and porcelain, jewellery (from 19 lakhs to 34 lakhs), clocks and watches, toys and games requisites, etc. On the other hand, the value of imports of mineral oils declined from 904 lakhs in 1931-32 to 670 lakhs in 1932-33; the value of grain pulse and flour receded from 118 to 71 lakhs; the value of kerosene oil declined from 433 lakhs in 1931-32 to 254 lakhs in 1932-33. The value of boot and shoe imports also contracted.

Now the imports of 1931-32 and 1932-33 in two sets of facts are noticeable. In the first place, the total value of exports has come down by about 23,45 lakhs of rupees: but at the same time the value of imports has risen by about 621 lakhs. Secondly, in the list of imports, there is a considerable increase in the value of such articles as silk, hardware, precious stones, jewellery, porcelain and glassware, clocks and watches and toys and games requisites, while there is a decline in the values of ordinary everyday requisites like, kerosene oil, etc. In other words, there is an increase in the value of luxuries, while the purchasing power over the necessities has contracted. This paradox can only be explained by the unequal distribution brought about by 3 years of depression. This paradoxical state of affairs did not obtain during two years before 1932-33. The decline was general in all cases, luxuries as well as necessaries. But during 1932-33 as has been shown above, the value of imported luxuries increased while the value of imported necessities still further declined. This only reveals how far, the 'save-my-own-soul' policy of the government had led. The whole machinery of distribution must have been turning backwards and unless proper and immediate measures are taken, forces of nature trying to reassert themselves may play more havoc than our comfortable imagination can show to us.

Finance and Currency.

Even prior to the appearance of the depression, the Indian financial authorities were not quite care free, owing to the mischief of a high exchange rate. The government had to manipulate the money market beyond the limits of any reasonable interference for keeping the exchange rate at the lower gold point. Heavy contraction of currency had to be effected ever

since the rate was fixed at 18*d.* except in 1928-29. In 1929-30 the net contraction of currency was about Rs. 32,41 lakhs of rupees, followed by another contraction of Rs. 3864 lakhs in 1930-31. In 1931-32 also a contraction of about Rs. 2065 lakhs was necessary even though after September 1931 the exchange rate ceased to be a source of trouble from the point of view of its maintenance. In order to keep up the exchange rate, large and continuous issue of Treasury Bills was necessary in order to keep the money market tight and by September 1931 this floating debt rose to the abnormal height of 83 crores of rupees. This large issue of Treasury Bills could only be successful at high rates of interest. Even the rate of 8 per cent was offered at that time in order to push more bills down the throat of the market. Even then it was extremely difficult to meet maturities by fresh renewals. The Government had to sell in June 1931 large amounts of Reverse councils for maintaining the exchange rate. The high rates of interest offered for the Treasury Bills increased the interest liabilities of the Government and meant a further addition to the expenditure side which was slowly beginning to be too heavy relatively to possible revenues.

The actual reflection of a bad state of economic activity takes time to be felt in the revenue of the state, since, it is possible that taxes for some time will be paid from the previous years' incomes. Besides, the year 1930-31, in its earlier stages at least, did not forebode any gloom in the future of India's public finance. Moreover, the Mistress of Finance seems to have reserved all her melodramatic whimsicalities to the halls of the Credit Anstalt and the Reichsbank and the Grandame in London. Conditions in India, therefore, at that time did not betray any signs nearing a panic.

But September 1931 was a landmark. The publication of the Macmillan Committee's report in England awakened financiers in England and by some kind of suggestion, those in India also. It was felt that the Budget could not be balanced unless the estimates were revised and due measures taken. The abandonment of the gold standard by England was taken as an opportunity and India also was taken off the gold standard. The taxation was thoroughly revised, a general surcharge of 25 per cent on all duties was announced in a supplementary budget. The income taxes also were snatched for increased revenue by shifting the level of taxable minimum from Rs. 2,000 to Rs. 1,000. On the expenditure side also, on the recommendations of the 5 Civil Retrenchment Committees, appointed for the

purpose, economies were effected to the tune of about $4\frac{1}{4}$ crores of rupees. The rupee was linked to sterling at the same old rate and exchange control was introduced limiting the sales of gold or sterling, by the government to banks for (1) " normal trade requirements excluding the imports of gold or silver coin or bullion and the liquidation of oversold exchange position of any bank in respect of any month subsequent to the month in which the demand for gold or sterling might be made, (2) contracts completed before the 21st of September and (3) reasonable personal and domestic purposes."[9]

This may be taken as the turning point in the fortunes of government finance. The gradual depreciation of sterling and along with that of the rupee was so effective that within three weeks of time the price of gold in terms of the rupee went up so high as to bring into existence the abnormal phenomenon of gold exports. These exports of gold had so many "good" effects all at once, that they are being flattered to the skies. These exports of gold accommodated themselves in the space left vacant by declining export value and rectified the dwindling balance of trade. The exchange rate was shook from the lower gold point to which it clung for such a long time, and by small jumps it stationed itself at the upper gold point again. The accumulated floating debt, consequent upon the rising of the exchange rate, melted away and once more Treasury Bill rates began to be ruled, not by monopolistic but by competitive rates. The rates of interest on these bills came down to as low as $2\frac{1}{2}$ per cent. The tight grip was released after a long interval of nearly four years. Plenty of sterling was available on the market and the government did not experience any difficulty in making remittances. As the gambling of the bankers in Treasury Bills was not possible they once again turned to transact more normal business and the two-rupee loans of the year offered at 5 per cent and $5\frac{1}{2}$ per cent respectively proved to be a thorough success. In fact conditions turned out to be so good that at the end of the year it was found that there was a cash balance of £16 millions in the Home Treasury. The debt of £15 millions which matured in 1932 was repaid and the depleted paper currency reserves (depleted on account of excessive sale of reverse councils) were duly replenished. The percentage of gold to note circulation in the Reserve which came down to 2·76 in

9 Text of Ordinance, No. VI of 1931.

October 1931 once again recovered to 10·7 by the end of 1932 and to 14·7 by March 1933.

The Budget itself was a tremendous success leaving a surplus of 2½ crores and the anticipations went so high as to expect a surplus budget in 1933-34 also, the estimated surplus being 42 lakhs.

At this juncture, however, a more prudent management would have meant capital advantage both to the government and the country. The retrenched cuts in expenditure have been restored while the tax-payers are offered no relief at all. True, there was no revival in trade which alone perhaps could help the swelling of the government's revenue; but revival of trade itself is impossible unless, not only taxation is relaxed but artificial stimulus is given to the export trade by depreciating currency to suit the decline in wholesale price level. Mere depreciation of currency further, would not have brought about a cent per cent trade revival. But an amount of depreciation which was sufficient to a country like England dependent as she is on an export trade of manufactures, is not adequate for bringing about a proportionately equal amount of revival in a country like India whose main export trade is in agricultural production. In this respect she should have taken the example of other agricultural countries where depreciation of currency has been made to suit the decline in price levels. Currency depreciation if availed of earlier, somewhere about 1930 as in Australia, Newzealand, the Argentine, Brazil, Venezula, and Bolivia the decline in price levels would have been much less than to-day. Even after depreciating the currency, the amount of depreciation was not adequate. The following table shows the maximum amount of depreciation given against the maximum decline in price level in the case of some agricultural countries:

Countries.	Percentage decline in price level.	Percentage depreciation of currency. At the end of 1931.
Argentine	12.9[10]	40[11] per cent.
Australia ..	28·5	45 ,,
Newzealand ..	15·6	40 ,,
Peru	13·8	20 ,,
India	44·3	30 ,,
United Kingdom ..	30·4	30 ,,

10 World Economy Survey 1932-33, p. 39.
11 *Ibid.*, p. 225-226. (Graphs.)

It may be seen that in the case of India the extent of depreciation of currency was less than what was necessary. The amount of depreciation was sufficient from the point of view of the United Kingdom and more would have been necessary in the case of India. This is the necessary evil of thinking that what is good for England is also good for India. But it may be pointed out that unless this is done revival may be still far off, and the heavy burden of taxation is an impediment to revival

Again, the government could have taken advantage of the very good monetary conditions and their high credit for successful conversion operations. By their tact and adroitness, the British authorities had been able to convert at the end of August 1933, 92 per cent of their war debts. The Indian authorities had in common with the British government the good credit and easy market, but differed in respect of having a clear cut policy. There was in fact no policy until the end of the 1st half of 1932. By the remarkable success of their new loans floated during this period the government blundered into the right path of seeing the chances for conversion. The first loan floated on the 6th June was a $5\frac{1}{2}$ per cent cash loan, the amount of Treasury Bills converted being only of the value of Rs. 5·34 crores out of a total accepted amount of 19·14 crores. The second was a 5 per cent loan issued on the 17th of August and it was also only a partial conversion since cash also was accepted. The third loan of the year was issued at 4 per cent, the amount being restricted to 15 crores. But the accepted amount was 24·77 crores out of which 9·8 crores were accepted in cash and the remaining in Treasury Bills. The last loan in 1932-33 was a 4 per cent conversion loan, the option for conversion being for the 5 per cent 1929-47 war loan and the 6 per cent 1933-36 war Bonds. Out of the four loans only one is a satisfactory conversion loan and the others are of a doubtful character from the standpiont of conversion. Thus the government realised the opportunity very late and even after realising it the execution was so unsatisfactory.

Finally, it seems to us that if the government had not resorted to overhauling the tax-system for maintaining the budget, but depreciated the currency earlier and resorted to financing the demands of expenditure by borrowing it would have greatly helped trade revival. Even if trade revival were not attained, a policy of borrowing would have been better from other points of view also. Due to very great decline in price levels the

previous taxation itself would have greatly increased in burden and additional taxation made the effects of the depression much worse. That borrowing will draw upon the capital of the country, whereas taxation is drawn only out of income is hardly worth any consideration, because we have in any case decided to live on our capital, by exporting gold, with this difference, that if borrowing was resorted to and trade stimulated that capital which is now flowing out would have remained in the country. Moreover, the loans would have been easily forthcoming since the unequal distribution effected by the depression has certainly left larger real incomes in the hands of certain classes, and borrowing from these sources would have been both just and convenient from the point of view of the taxpayer. Since this disturbance in incomes is great, the enhancement of taxes would have an inequitous effect as between various classes,—especially the enhancement of indirect taxation. The duration of the depression being necessarily of a short period the wholesale disturbance of the tax system is not perhaps the best course.

In view of all these facts, therefore, if the government had dealt a more generous dose of depreciation, at an earlier date, and out of the consequent easier monetary conditions resorted to manage the expenditure by a wise policy of borrowing, both the government as well as trade would have recovered. But, as it is, the government finance was helped at the expense of the revival of trade and business activity. But dependent as the state is ultimately on these two factors, it may soon be brought to realise the risk of the solution it thought fit to adopt.

It would have been better if we could also estimate the increase in the burden of debts and taxes, the effects of the disharmony between costs and prices, the decline in profits, the effect on internal trade, etc. But nothing of that kind is possible without adequate statistics. As regards the burden of taxes, since no data of national income and incomes and profits of corporations, etc., are available, it becomes both difficult and unreliable. As for wages we know nothing. As for the disharmony between costs of living and prices Prof. Chablain estimated[12] that conditions in India are much better than in other countries. But the cost of living indices are published only from the Labour Office, Bombay, in which presidency due to the rapid expansion of the cotton industry during the last few years, and due to comparatively better condition of its main crops, they retained a better position than many other provinces. Dr. Meek, Director-General of

12 Paper read before the Sixteenth Indian Economic Conference.

Commercial Intelligence and Statistics, estimated that in the case of Bombay the total fall in the value of its seven main crops amounted to 25¾ crores while in the case of Bengal, for instance, taking the value of its seven main crops, the fall was estimated to be about 137 crores between 1928-29 and 1931-32.[13] Such discrepancies exist as between the other provinces also. In a vast continent like India, to take the conditions of a province that maintained itself comparatively better and try to apply the conclusions derived therefrom to a whole country, is, in our opinion, no more scientific than to attempt a study of the stars with a pair of toy binoculars. In a case where statistical evidence is so meagre the methods of deriving any reliable conclusions are bound to be of an extremely doubtful reliability. In the matter of internal trade, thanks to the benevolence of the Inchcape Committee, we know nothing. If a crude method like measuring the state of internal trade, by the earnings of railways can pretend to indicate anything, it may be pointed out that the total earnings of railways came down from a net gain of 1,015 lakhs of rupees in 1927-28 to 254 lakhs in 1929-30. In 1931-32 and 1932-33 the railways worked on a total loss of Rs. 624 lakhs and 980 lakhs respectively which shows, however roughly it may be, if not on actual extent of decline in the contraction of internal trade, at least the direction along which it is going.

Finally, therefore, the conclusions from the foregoing account may be summarised as follows:

(1) In the matter of fall of prices India seems to have been the most severely hit.

(2) Our agricultural production in most cases did not contract as prices fell, in some cases even a tendency to increase in production is evident; while the production of industrial raw materials showed some amount of decrease;

(3) In the case of our industrial production, the existence of favourable conditions of production does not indicate the absence of depression because, the expansion in production is secured not as the result of increased consumption but only as a response to increased protection both governmental and popular; and this also proves how, with

13 Quoted by Sir George Schuster in his address to the Sixteenth Indian Economic Conference.

favourable conditions forthcoming, industrial development can take place.

(4) In the case of our foreign trade the proportionate decline in the value of India's exports is much greater than in most other countries and the contraction in the value of her imports, compared to most other agricultural countries, is the smallest, the discrepancy thus arising in the balance of trade having been made up by exporting capital.

(5) In her finance India has not had many complications, and those which she actually had to face, could have been greatly rectified with the help of a more comprehensive currency policy.

(6) The condition of her internal trade, though impossible of any accurate estimate, must have been, as may be inferred by such indirect evidence as is available, going down from year to year since 1928-29.

TRANSPORT COSTS AND MARKETING OF SUGAR

BY

R. D. TIWARI, M.A.

Transport costs play an important part in the cost of production of sugar and, therefore, in the pages that follow we shall review the general transport position with special reference to the transport of white sugar and locate the limitations therein. Till very recently India had to import white sugar in large quantity, but these imports have now dwindled due to rapid expansion of the indigenous industry. This increase in the home production, the consequent decline of the imports, the possibility of imports after protection is withdrawn and the scope for the export of Indian sugar are very closely knit with the problem of transport costs. Further, albeit the imports of white sugar have dwindled, the price of sugar in India is still determined by the price of imported sugar. Thus, imports have even now a fairly strong hold over the sugar market in this country. Above all, when it is recalled that the manufacture of white sugar is localised in a definite part of the country known as the Sugar belt area and that the development of sugar factories in other parts has not been adequate notwithstanding the State protection, with the result that sugar has to be transported for consumption over longer distances and has to face the competition of foreign sugar imported from the nearest port, the problem of transport assumes greater significance.

A word about the limitation of the scope of this paper. Due to the limitations put upon the length of the present thesis it will not be possible to examine in detail the limitation in transport costs of all forms of sugar and, therefore, we shall concentrate our attention primarily upon the transport of white sugar. It is not, however, intended to suggest that transport facilities in those cases are adequate and efficient and need no further improvement. Far from it. For instance, transport costs of *gur* are important in determining *gur* prices particularly when the length of haulage is long. But here it cannot be denied that by far the larger proportion of total quantity of *gur* manufactured in our country is consumed in neighbouring areas, the demand for the article being specialised,

and transported on bullock carts or ponies owned by the parties concerned. Organised form of transport is, therefore, only occasionally used. Hence the justification for the study of the transport of white sugar with special reference to railroad transport.

Railways are by far the most important carriers of white sugar and, therefore, the rates charged by them play an important part in determining the price of sugar and the marketing area. High railway rates charged, therefore, are apt to act as a serious limitation to the manufacture of sugar and jeopardise the future growth of the industry. Per contra, a more favourable rates policy may afford a healthy stimulus and help the development of the industry, particularly of a young and growing industry like ours, by extending the marketing area. Of the different railways as carriers of sugar traffic, the more important are E.I.R., G.I.P., B.B.C.I., N.W.R., and B.N.W.R. Before, however, we take up the study of the movement of sugar traffic and the rates charged thereon, it behoves us to outline in brief the basis of these rates.

On the E.I.R. sugar traffic is charged at second class R.R., but when the traffic is booked from Howrah (including other Calcutta stations) to stations on the E.I.R., and *via* distant 601 miles and over, 1st class O.R. rate is charged, subject to the operation of differential rate. On the B.B. 1st class rate at O.R. is applicable if traffic is booked from Bombay, Agra, Cawnpore, etc., the basis of charge being 0·38 pie per maund per mile. The N.W.R. charges 2nd class rate at R.R. on actual weight, but when the traffic is booked from Karachi for distances over 750 miles, 1st class rate at O.R. is charged. This rate is subject to terminal and short distance charge. The B.N.W.R., in the absence of special rates, charges 2nd class rate at R.R. But here it should be noted that bulk of the traffic is carried at special rates in force over this line. These special rates afford substantial concession over the class rates as will be clear from the following statement:—

Rates per maund to Cawnpore.

Miles.	Station from.	Class rate. Rs. as. p.	Special rate. Rs. as. p.
251	Ghughli	0 9 9	0 7 4
230	Sardarnagar	0 9 1	0 7 2
431	Samastipur	1 0 1	0 11 7
178	Basti	0 7 3	0 5 5
261	Padrauna	0 10 0	0 7 8

Having portrayed the basis of rates charged, we shall now pass on to examine the incidence of current rates on the movement of traffic from the ports to the centres of consumption and from the internal sugar factories to more important markets, so as to find out the limitations under which sugar factories have to work in marketing their finished product and the nature alike of internal and foreign competition they have to meet with. Let us then start with the Calcutta port and study the movement of imported traffic. It may be pointed out that the hinterland of this port extends from Assam on one side to the Punjab and the Central Provinces on the other. It serves as a gate for inward and outward movements of merchandise of this vast territory. In 1929-30, about 369 thousand tons of sugar valued at Rs. 5·6 crores was imported through this port. The importance of this port for sugar traffic is thus clear, although imports in more recent years have dwindled due to rapid expansion of the home industry.

The Gangetic planes are linked to the Calcutta port by the E. I. Railway which serves the important parts of the fertile and thickly populated territory which has been rightly adjudged as the richest in India. The consumption of sugar, therefore, is by far the highest in this tract. Of the total sugar consumed greater portion is of indigenous sugar because the United Provinces and Bihar are most important centres of sugarcane cultivation. Besides, it will be remembered that white sugar manufacture has also come to be centralised in this very area. Therefore, so far as the consumption of white sugar in this part is concerned, indigenous white sugar has recorded marked progress in eliminating imported sugar from the factory zone and competes in distant markets as well. The cost of transport, however, limits the competitive area.

The city of Calcutta with its suburbs, which consumes the largest amount of white sugar, and the area in the vicinity of about 150 miles, are monopolised primarily by the imported sugar because of the transport cost which works against the indigenous white sugar. This obviously adverse transport position is due to the fact that these indigenous factories are located at a fairly long distance from Calcutta—there being no important sugar factory in Bengal—whereas the imported sugar is landed direct in the port. Indigenous white sugar is imported into Calcutta from the sugar factories in Bihar on the B. & N. W. Railway *via* Mokameh Ghat. From the Ganga Deshi Sugar Mill siding at Buxar to Howrah, the E. I. Railway quotes a

special rate of Rs. 0-10-6 per maund at O. R., which works out at 0·36 pie per maund per mile, less than 1st class rate. Therefore in Calcutta and its suburbs imported sugar has an advantage of 10 annas per maund over the indigenous sugar. In view of these facts it is hardly necessary to add that indigenous white sugar does not in the least compete with the imported sugar in the Calcutta market, due partly to transport handicap, and if it is consumed there, the fact can be explained by reasons partly non-economic.

However, in order to estimate more definitely the disadvantage under which the Indian sugar factories labour in respect of railway transport in the Calcutta market, it is necessary to find out railway rates from more important of these factories. On the B. & N. W. Railway on which most of these factories are situated, the traffic moves *via* Mokameh Ghat and thereafter it is transhipped and carried by the E.I.R. to Howrah, as will be evident from the statement submitted below:—

Rates per maund viâ *Mokameh Ghat.*

Stations.	Rs.	as.	p.	Stations.	Rs.	as.	p.
Basti	0	10	3	Savan	0	6	4
Sardarnagar ..	0	8	6	Tamkuhi Rd. ..	0	7	9
Gauribazar ..	0	8	2	Padrauna ..	0	8	4
Bhatni	0	7	4	Lakshmiganj ..	0	8	10
Mairwa ..	0	6	9	Ghugli	0	9	5
Pachrukhi ..	0	6	2	Chakia	0	5	1

To these rates must be added the charge from Mokameh Ghat to Howrah on the E. I. Railway which works out at Rs. 0-8-3 per maund. Of all these factories, the Champaran Sugar Factory at Chakia is most favourably located for supplying the Calcutta market, because it pays only about Rs. 0-13-4 per maund to Howrah. Next in point of distance is Pachrukhi which pays Rs. 0-14-5 per maund. Savan ranks third with Rs. 0-14-7. The most important striking feature of our sugar industry which emerges out of this study is that indigenous sugar has a serious transport handicap in this most important market, and that if the hold of foreign sugar over this market is to cease, this limitation should be removed. With the expansion of the industry which is now in progress it is expected that factories

would be established in Bengal. Further, transport costs needs be economised by centralised marketing. Above all, railway rates should be revised with a view to help the industry in reducing the transport costs.

This much for the Calcutta market. The catering of the Calcutta market by the Indian Sugar factories is indeed a very important problem and will be much more important in near future when protection will be withdrawn. We have indicated the difficulties to be overcome which are not insurmountable. The definite scheme for tackling the problem will be outlined later.

In the factory zone, indigenous sugar has obviously an advantage due to the proximity of the consuming markets to the respective factories and the longer distance, per contra, from the Calcutta port. It is indeed difficult to precisely demarcate the limits of this zone in the absence of requisite data, but in the pages that follow an attempt will be made to study and locate the extent of this zone, the transport advantage possessed by the sugar factories against the importers, and the competition *inter se* of the factories. To have a definite idea of the transport position it is necessary to correlate the internal traffic and the rates charged thereon with the rates charged on the import traffic from Howrah. Therefore, of the consuming markets a few typical ones will be selected for further analysis. The supply of sugar to Benares and the rates charged thereon may be summarised as follows:—

Mileage.	Station from.	Quantity despatched (maunds).	Rate per maund. Rs. as. p.
182	Basti	25	0 7 5
131	Sardarnagar ..	141	0 5 8
99	Bhatni	9,719	0 4 6
117	Mairwa	3,040	0 5 2
135	Pachrukhi ..	1,555	0 5 10
130	Savan	612	0 5 7
170	Tamkuhi Rd. ..	278	0 6 11
173	Lakshmiganj ..	321	0 7 2
225	Chakia	419	0 8 11
429	Howrah	..	0 15 8

As Bhatni has to pay only Rs. 0-4-6 per maund by way of Railway freight, being nearer to Benares, it is the largest supplier of sugar to this market. Mairwa comes as a very bad second, partly because it has to pay slightly higher rate. As against the imported sugar, factories at Sardarnagar, Bhatni, Mairwa, Pachrukhi and Savan have freight advantage of about 10 annas as against the imported sugar. This is indeed a very substantial advantage. Here it should be noted, as the foregoing statement makes it clear, that there is a very keen competition amongst the internal factories. For instance, when there is already a factory at Bhatni at a distance of about 99 miles, it is obviously unfair on the part of Champaran Sugar Factory at Chakia located at a distance of about 225 miles to compete in that market.

Bahraich may be taken next. The summary position in respect of sugar traffic and the rates charged thereon is as follows:—

Mileage.	Station from.	Tonnage (maunds).	Rate per maund. Rs. as. p.
	Basti ..	.. 601	0 4 3
	Sardarnagar	.. 649	0 6 1
	Gauribazar	.. ..	0 6 5
	Bhatni ..	.. 139	0 7 2
	Mairwa ..	.. ..	0 7 9
	Pachrukhi ..	.. 180	0 8 5
	Tamkuhi Rd.	.. 522	0 7 10
	Savan ..	.. 163	0 8 3
	Padrauna ..	.. 4,355	0 7 2
	Lakshmiganj	.. 6,059	0 6 8
	Ghughli ..	.. 448	0 6 10
	Howrah ..	.. ..	....

Here again the indications of internal competition are discernible. Basti has the greatest advantage in respect of railway rates, and yet it is not able to make use of this advantage in supplying the market in question. This is probably due to

the fact that Basti has more favourable markets elsewhere. Further point of note is a clear absence of shipments from Chakia, which shows that this market is not profitable due to very high railway freight which is nearly treble of that from Basti. It follows, therefore, that the widest marketable area for the Indian Sugar factories is about 400 miles.

Another important centre is Barabanki, which is not merely a good consuming market for Indian factory sugar, but a junction through which large sugar is despatched to markets in the east of the Punjab and western parts of the United Provinces. In the following table an attempt has been made to correlate the quantity shipped from the different stations to and *via* Barabanki and the railway rates charged:—

Station from.		Tonnage to Mds.	Tonnage *via* Mds.	Rate per Md. Rs.	as.	p.
Basti ..	..	993	25,995	0	4	4
Sardarnagar	..	5,103	48,798	0	6	0
Gauribazar	..	525	14,306	0	6	3
Bhatni ..	..	1,608	16,124	0	7	0
Mairwa	..	504	6,840	0	7	6
Savan ..	..	417	26,519	0	8	0
Pachrukhi	..	1,207	13,440	0	8	1
Tamkuhi Rd.	..	4,837	61,697	0	7	7
Padrauna	..	5,736	36,185	0	7	0
Lakshmiganj	..	1,486	31,860	0	6	7
Ghughli	..	1,085	30,095	0	6	8
Marhowrah	..	808	28,341	0	9	6
Lohat Siding	..	732	27,066	0	12	5
Tar Sarai	..	417	3,682	0	12	2
Howrah	..	..	..	1	4	1

It may be pointed out that even though Barabanki by itself is not a market where imported sugar competes keenly, partly due to transport protection available to the indigenous article, yet its importance lies much more upon its being a transhipment station through which heavy indigenous sugar traffic passes to

other more important consuming markets. The point to note is that in the markets *via* Barabanki distant despatching stations like Lohat Siding and Chakia compete, notwithstanding the higher railway freight, partly because their local markets are limited in scope. When sugar goes up to western parts of the United Provinces transport protection against the imported sugar is doubtless increased, but this advantage is neutralised in the case of factories located in the distant parts of Bihar. Hence the justification for the establishment of factories nearer the consuming markets. From the trend of recent developments in the sugar industry it is seen that new factories are being erected in the eastern parts of the United Provinces. This transport disadvantage, therefore, will soon be made up. Similar is the case with the Punjab. To these markets imported sugar has to pay Rs. 1-8-0 to Rs. 1-10-0 per maund by way of railway freight.

Before we close this part of our investigation it should be noted that the 1st class rate on sugar quoted by the E. I. Railway when the consignment travels over more than 600 miles adversely affects the manufacture of white sugar in this country by stimulating the penetration of imported sugar at reduced rates as compared with the internal sugar. It has been repeatedly pointed out that the import sugar traffic does not need any such inducement in the form of reduced rates and therefore to help the deficit budgets and depleted railway finances these needless concessions must form the first charge.

Thus, the survey of the hinterland of the Calcutta port sufficiently emphasises the importance of internal sugar production and of railway transport in the distribution of total sugar requirements. The transport position from Calcutta to Delhi, as will be seen from the foregoing survey, varies from the standpoint of indigenous industry from one of positive disadvantage in the former case to that of very substantial advantage in the latter. The average transport advantage is reduced considerably, because in order to dispose of the total output factories have to cater for distant markets. The situation is further aggravated by the overlapping of markets and the consequent competition *inter se* of the sugar factories. In short, of the total sugar imported from Calcutta substantial portion is consumed in Bengal and Orissa, where Indian factory sugar finds it rather difficult to make its way; its consumption has been seasonal in Bihar and the major parts of the United Provinces due to the inadequate output of the indigenous sugar. This

limitation will now be overcome due to the expansion now in progress.

The hinterland of Bombay port may next be studied. The importance of this port as the distributor of imported sugar traffic will be clear from the fact that in 1930-31 Bombay imported 215,206 tons of sugar, in 1931-32, 131,242 tons and in 1932-33, 111,903 tons. In studying the distribution of imported and indigenous sugar, the markets may for the sake of convenience be subdivided on the basis of railway lines serving them—G.I.P. and B.B. In this connection, however, one important point of note is that unlike the Calcutta port, sugar imported through Bombay port does not meet any serious competition with the internal sugar, except in the distant parts as will be seen presently. This has been due to relative absence of sugar factories in this Presidency, with the single exception of Belapur factory. During the last few years about six other sugar factories have been started and, therefore, the transport problem to-day has assumed quite a different character. Notwithstanding this recent expansion imported sugar and sugar manufactured in the United Provinces and Bihar does play an important part in this Presidency. This shows that the factories situated in this Presidency have a very wide and secured market. But the extent of the market is subject to certain limitations which should be noted. As against the sugar manufactured in the United Provinces and Bihar, the local factories have considerable and decided transport advantage, but the same is not true as against the imported sugar. Bombay City with its suburbs is the most important consumer of white sugar, but in this market imported sugar has substantial advantage in matters of transport costs as will be shown presently. Same is true of markets in Gujrat, because most of the newly floated sugar factories are localised in the Deccan. Further, foreign sugar consumed in Gujrat can be more advantageously imported through the Kathiawar ports. These preliminary remarks needs be kept in view in studying the transport costs and the limitations under which sugar factories have to work.

Fortunately the G.I.P., unlike some of its other compeers, does not offer any needless and invidious concessions on the import traffic and levies a charge at uniform mileage rate, 2nd class railway risk, irrespective of the conditions of load, except to some competitive markets where adjusted class rates or special station-to-station rates are quoted to meet mostly the port competition. This is the most welcome feature of the rates

policy pursued by this railway because this limits the penetration of imported sugar and removes the invidious distinction which adversely affects the indigenous sugar industry. Imported sugar does not need any special protection at the hands of Indian Railways.

In Bombay city imported sugar has considerable transport advantage because Belapur sugar factory has to pay Rs. 0-8-7 per maund by way of railway freight whereas the imported sugar has to pay nothing. In some markets like Nasik, Manmad, Chalisgaon, Jalgoam, Bhusaval, etc., both imported and Belapur sugar is sold side by side, because the latter has an advantage in railway freight.

To some more distant markets, however, special station-to-station rates are quoted from Bombay and, therefore, the competitive freight position works out as follows:—

Station to.		From Bombay. Miles.	Class rates.	Special rates.	From Belapur. Miles.	Rate.
			Rs. as. p.	Rs. as. p.		Rs. as. p.
Khandwa	..	353	0 13 4	0 12 11	246	0 9 7
Nagpur	..	520	1 3 2	1 0 0	413	0 15 5
Ujjain	..	635	1 2 4	1 1 1	527	1 3 5
Gwalior	..	763	1 11 8	1 10 10	655	1 7 11
Dholpur	..	804	1 13 2	1 9 7	696	1 9 4
Agra	..	838	1 11 9	1 8 0	730	1 10 7
Cawnpore	..	839	1 8 6	1 6 5	731	1 10 7

Here we have in our grip some very interesting trends of the rates policy and its effects upon our trade and industries. The contrast between the class and special station-to-station rates from Bombay is interesting, and much more so when it is noted that most of the class rates are adjusted class rates. It will be seen that whereas for 838 miles to Agra the rate is Rs. 1-11-9 per maund, for almost the same distance to Cawnpore only Rs. 1-8-6 are charged. This most obvious inconsistency is due to port competition. The E.I.R. charges Rs. 1-9-2 and Rs. 1-4-8 per maund from Howrah to Agra and Cawnpore respectively. These G.I.P. rates are further reduced as will be seen from the second column of special station-to-station rates. Again the class rate from Bombay to Ujjain is lower than the rate from Bombay to Nagpur even though the distance is longer. This violation of the differential rule has been

averted in the station-to-station rates, but the fact that lower rates are offered from Bombay to some more important markets to meet port competition stands out prominently. This port competition adversely affects the internal sugar factories by helping the penetration of imports. It subsidises the imports. The continuance of this peculiar feature of our railway rates policy is deplorable particularly because both these railways are State-owned and State-managed. Ujjain rate, referred to above, is quoted to meet the competition of B.B.C.I. where the distance to be traversed is only 466 miles as against 635 miles on the G.I.P. In this case the traffic should rightly be carried by the B.B. and the G.I.P. should not make unreasonable encroachments. Belapur sugar factory, on the contrary, has to pay relatively higher rates. Hence the need for a co-ordinated railway rates policy.

In the markets served by the B.B.C.I., imported sugar has still greater advantage, partly due to the absence of local factories in this area and partly because of the Kathiawar ports. Sugar imported from Bombay port does not find it advantageous to go beyond Baroda, because railway freight from Bhavnagar port is cheaper. Thus, for instance, rates from Bombay to Ahmedabad, Sabarmati and Viramgam are Rs. 0-12-3, Rs. 0-12-5, and Rs. 0-13-8 per maund respectively, but from Bhavnagar rates work out as Rs. 0-5-5, Rs. 0-5-6, and Rs. 0-5-8 respectively. As against this advantage possessed by the imported sugar in these markets, Indian factory sugar has to pay higher railway freight due to longer distance. Factories in Northern India have great disadvantage in this respect. Belapur sugar comes to Ahmedabad, Surat and Baroda, the rates charged being Rs. 1-2-6, Rs. 0-13-6 and Rs. 1-0-4 per maund respectively. The transport limitation is therefore clear. From the perusal of B.B. Goods Tariffs it appears that the imported sugar is consumed largely in the area within about 500 miles of the port; and in this area indigenous sugar suffers from transport disadvantage. This is a very serious limitation on the growth of sugar industry.

Karachi is another important port for the import of white sugar. The hinterland of Karachi port is very wide and white sugar is consumed in varying quantities. Competition which the imported article meets with the indigenous article varies in different localities. In Sind, Baluchistan and the N.-W. F. Provinces, there are no sugar factories; and yet the nature of competition of the imported and indigenous sugar is not the

same. In Sind, Indian factory sugar has very great transport disadvantage and, therefore, imported sugar predominates. In the N.-W. F. Provinces sugar from the Punjab and the Western parts of the United Provinces comes in competition with the imported sugar, but even in these markets the position of imported sugar is rather stronger, due partly to lower rates quoted by the N. W. R. for distances over 750 miles. In the Punjab, however, the competition of indigenous sugar is of great moment. But the position would be substantially improved if the marketing arrangements of the Indian factories were improved.

Thus, the foregoing survey reveals that the Indian factories can compete with advantage in Bihar, United Provinces and the Eastern Punjab, thanks to their location distant from the ports. This transport protection, however, has not been fully exploited by the factories due to inadequate output and, therefore, their hold even in these markets has hitherto been only seasonal. But due to rapid expansion that has taken place the situation has now changed and will be completely altered very soon, with the result that the hold of internal sugar in the protected markets has strengthened and the consumption of imported sugar in this area is due to the inferior quality of imported sugar. One important wasteful element is the internal competition of the sugar factories which deserves most serious and careful attention of the sugar manufacturers. Baneful effects of this internecine competition have become too serious to be neglected. In other areas imported sugar still competes with the indigenous articles, but the nature of the competition differs in different localities. For instance, in port towns and in markets in the vicinity of these ports, imported sugar still has substantial hold, and the position of the indigenous article is weakened in these important markets, due to the inferior quality of the factory sugar, competition *inter se* of the manufacturers and longer distance over which the article has to be carried with higher transport costs.

Further, relatively lower rates are quoted on the imported sugar traffic. In fact, the foregoing review of rates policy has brought to relief several striking features of the present policy. The policy pursued by the E.I.R. in quoting lower rates on traffic shipped from Howrah to Up-country over distances of more than 600 miles, on actual weight is mischievous. In addition, special station-to-station rates are quoted to some markets both on actual weight and wagon loads. This, as has been pointed out, is common with the B.B. and the N. W. Railways as

well and, therefore, this defect in rates policy is not peculiar to this line alone. But the E.I.R. is more to blame because the traffic moving from Howrah to Up-country is already very heavy, and, besides, the import traffic in sugar does not need any such protection. The E.I.R. will not lose its traffic in imported sugar even after this concession in rates is withdrawn. This is true of sugar imports from all ports. Again, port competition helps to subsidise the imports.

Another conclusion which emerges from the foregoing review is that the railways should quote relatively lower rates on both the raw materials and finished products of the Indian factories because the total traffic which they thus get is very large and the indirect benefit accruing therefrom constitutes a valuable asset alike to the railways and the community at large. Further, lower rates would operate as an invaluable aid to future development of the industry and would have full justification as a move of shrewd and far-sighted railway management. This courageous policy on the part of railway authorities would be more than justified.

Above all the most striking feature which the foregoing survey has brought to relief is the lack of central marketing organisation for sugar manufacturing central factories which entails considerable waste in transport costs resulting from the overlapping of the marketing area. This is, indeed, a very serious drawback in the organisation of the Indian sugar industry and no reduction in railway rates, however well meant and far-reaching, will be able to materially improve the condition of the industry, until better marketing arrangements are made. Marketing of indigenous white sugar should, therefore, be centralised. It may be suggested that sugar factory owners should form a new institution which should be entrusted with the function of marketing white sugar. This new body should guide and regulate the production and sales of sugar, with a view to avoid waste in transport costs. Of course, actual manufacture will be carried on by the individual factory owners, but the quantity to be manufactured during a given period will be determined by this central institution. This will necessitate standardisation in the quality of sugar. Even here, the central body will be in a better position with its stronger financial position and control over individual factories. The Cement Marketing Company of India has recorded admirable success in this respect, and there is no reason why the Central Sugar Marketing Company of India should not achieve similar success.

The Central Sugar Marketing Company, however, will have to face greater difficulties due to a larger number of sugar factories and the presence of European capital and capitalists. But these difficulties can be easily overcome by a better understanding of common interests. The possibilities of having a trust of sugar manufacturers may also be explored.

TENANCY LEGISLATION IN AGRA PROVINCE

BY

BABU RAM MISRA

D. A. V. College, Cawnpore.

In the North-Western Provinces, as in other parts of India, there can scarcely be said to have existed any Codified Rent Law until after the British occupation. Of the various portions of the territory now comprised in the Agra Province, the first to be acquired was the province of Benares under a treaty with Nawab Wazir Asafuddaulah concluded on the 21st of May, 1775.[1] By another treaty with Nawab Wazir Saadat Ali, concluded on the 10th November, 1801, was acquired the tract of country now comprising the present districts of Moradabad, Bareilly, Etawah, Farrukhabad, Cawnpore, Allahabad and Gorakhpur, then known as the *Ceded Provinces.*[2] The country situated between the rivers Ganges and Jumna, conquered by the British arms, was acquired under a treaty with Daulat Rao Sindhia concluded on the 30th December, 1803.[3] The area under this territory was known as the *Conquered Provinces.* The Regulations passed for the newly acquired districts were only re-enactments of those already in force in the Provinces of Bengal, Behar and Orissa with such alterations as experience or speculations suggested.[4] For the actual government of Ceded and Conquered Provinces the Code of the Regulations in force in Benares were introduced with modifications in 1803 and 1805.[5] There was no Codified Rent Law to govern the relations of landlords and tenants before the passing of Act X of 1859. To have an idea about the legislation relating to Rent Law down to 1859, one has to go

1 The date of the Cession was 1st July, 1775. Ghazipur and Benares were first acquired in 1764, but were restored by the order of the Court of Directors. Regulation I of 1795.

2 Regulation II of 1803, S. 2.

3 Regulation VIII of 1805, S. 1.

4 Regulation I of 1795, S. 1. Regulation I of 1803, S. 1.

5 The Regulations were only made applicable to the territory formed into Zillas of Aligarh, Saharanpur, North and South Agra and Bundelkhand. Regulation VIII of 1805, S. 3. The city of Delhi and the Conquered territory on the right bank of the river Jumna were 'assigned to His Majesty Shah Alam.' (IB, S. 4.)

to the various Regulations passed from time to time by the East India Company for the Government of Fort William in Bengal. There are only three Acts which require brief notice before we come to the great Rent Act of 1859. By Act XII of 1842 proprietors were declared competent to grant leases and to fix the rent of tenures only for such terms as might not be in excess of the term of their engagement with Government in the Ceded and Conquered Provinces. Act XII of 1841 and Act I of 1845 contain further provisions respecting sales for arrears of revenue.

Before the passing of Act X of 1859 Rent Law (if the expression might be permitted) was Rent Law for the landlords rather than for the tenants. The prompt realisation of the land revenue was of paramount importance for the mercantile rulers and no attention was paid to the customary rights and well-being of the tenant classes. Although as early as 1820 Sir J. E. Colebrooke in a brilliant minute had protested against sacrificing the yeomanry to English conceptions of landlordship and against 'merging all village rights, whether of property or occupancy in the all-devouring recognition of the zamindar's paramount property in the soil.' In making the early land revenue settlements some attempts, however, were made to check extortion and oppression: leases had been introduced and the compilation of records-of-right undertaken.[6] But these rights were nowhere clearly defined and the Courts were required to ascertain whether the right depended upon general or local usages.[7] In the Act X of 1859 the first serious attempt was made to consolidate, amend and improve the existing relations of landlords and tenants and to place the rights of tenants on a firmer and surer basis.

Act X of 1859.

When the Bill was brought forward, the North-Western Provinces had hardly passed through the crisis of the Mutiny. There was not much opposition to the Bill though it was suggested that its operation should be restricted to the Lower Provinces to begin with and it should afterwards be extended to the Upper Provinces, with such modifications as circumstances might

6 Regulation VII of 1822, S. 9.

7 Thus, clauses 7 and 8 of S. 82, Bengal Regulation XXVIII of 1803, required the Courts to ascertain the rights of under-tenants of all kinds, 'whether the same be ascertainable by written engagements or defined by the Laws and Regulations, or depend upon general or local usage which may be proved to have existed from time immemorial.'

require. The proposal, however, did not find favour and the Act was at once made applicable to the whole of the North-Western Provinces. The Bill received the assent of Lord Canning on the 30th April, 1859, and became Act X of 1859. The Bill was an earnest endeavour to improve the position of the cultivating classes and to place before them a freedom and an independence by clearly defining their rights and restricting the powers of zemindars. The author of the Permanent Settlement in Bengal considered the position of the tenant no less entitled to protection and security than that of the landlord. Regulation I of 1793 which created the rights of the landlords contained the important proviso that " It being the duty of the ruling power to protect all classes of people, more particularly those who from their situation are most helpless, the Governor-General in Council will, when he may deem it proper, enact such Regulations as he may think necessary for the protection and welfare of the dependent talukdars, ryots and other cultivators of the soil."[8] Act X of 1859 was for many years the sole embodiment of the law of landlord and tenant for all provinces included in the Bengal Presidency.

Occupancy Rights.

The two most important questions which the Act clearly defined were those of the fixity of tenure, and fair rents, or in other words, the right of occupancy and the right of enhancement. Regarding the right of occupancy, the Act contained two sets of provisions: the first, applicable to the permanently settled districts (the province of Benares); the second, applicable to both the permanently and temporarily settled districts. There were in the province of Benares certain permanent tenure-holders or dependent talukdars who at the time of the Permanent Settlement had held their tenures at a fixed rate and who were declared entitled to hold at such fixed rates. The Act declared that the rents of such dependent talukdars or other persons possessing a permanent transferable interest in land between a proprietor of an estate and the ryot should not be liable to any enhancement.[9] It was not possible to provide for such tenure-holders without providing for certain other classes of tenants described as '*Khudkasht Kadimi* ryots or resident and hereditary cultivators' having a prescriptive right of occupancy,[10] who

8 Regulation I of 1793, Article VII, clause 1.

9 Act X of 1859, S. 15.—*i.e.* Permanent Tenure-holders.

10 Regulation XI of 1822, S. 32.

were protected against enhancement of rent and whose position was like that of the dependent talukdar. Such tenants, the Act declared, were also entitled to hold land at fixed rates and to receive *pattas* at those rates.[11] The Act also extended the privilege to others by declaring that proof of holding land at fixed rate for a period of twenty years before the commencement of a suit should be *prima facie* evidence of occupancy at that rent since the Permanent Settlement.[12]

The second set of provisions related to tenants-at-will. The accrual of occupancy rights in their case was dependent on the continuous cultivation of land for a period of twelve years.[13] This rule was one of the most important provisions of the Act and governed the future relations of the landlords and tenants for more than sixty-five years in this province.

History of Occupancy Rights.

Some account of the history of the recognition of occupancy rights under the early British rule may not be uninteresting here. In the state of affairs which preceded the British rule, it was the custom that the immediate cultivator of the soil, duly paying his rent, should not be dispossessed of the land he occupied. Nothing was to be gained by ousting him; the reverse was always the case. Population was sparse, land was plentiful and it was in the interest of the zemindar to promote the cultivation of land to increase his own share.

One of the earliest attempts to give an account of the occupancy rights of the cultivating class is given by Sir John Shore in his celeberated minute. Sir John classified ryots into two classes, viz., *Khudkasht* or those who cultivate the land where they reside and *Pahikasht* or those who cultivate the land of the village where they do not reside. *Pattahs* to *Khudkasht* ryots were given without any limitation of period. They

11 Act X of 1859, S. 3.—*i.e.*, Fixed-rate tenants.

12 Section 4 laid down for ryots by declaring that "whenever in any suit under this Act it shall be proved that the rent at which land is held by ryot in the said Provinces (*i.e.*, Bengal, Bihar, Orissa and Benares) has not been changed for a period of twenty years before the commencement of the suit, it shall be presumed that the land has been held at that rent from the time of Permanent Settlement, unless the contrary be shown or unless it be proved that such rent was fixed at some later period.

13 Act X of 1859. S. 6.

acquired a right of possession by long occupancy and were not subject to be removed so long as they paid the rent from year to year. The right of occupancy did not authorise them to sell or mortgage their holdings. *Pahikasht* ryots held their lands upon a more indefinite tenure. *Pattahs* to them were generally granted with a limitation in point of time.

The rights of occupancy were recognised in the Permanent Settlement Regulations in which the whole body of the ryots was divided into two classes—*Khudkasht* and *Pahikasht ryots,*—the former to occupy the land, as long as they paid the stipulated rent.[14] These provisions were extended to the Ceded and Conquered provinces in 1803 and 1805.

Mr. Thomason recognised the right of occupancy in his 'Directions.'

"Cultivators at fixed rates (he said) have a right to hold certain fields and cannot be ejected from them so long as they pay those rates. They have no right of property in the fields, and are not able to alienate them without the consent of the proprietors: but their sons, or their immediate heirs, residing with them in the village, would succeed on the same terms as themselves: nor are they competent of themselves to perform any act which is considered to indicate proprietary right, such as the digging of a well, the planting of a garden, or the location of a labourer. Their simple right is to till their fields themselves or to provide for the tillage and for these fields they pay certain rates, and are in some cases liable to be called upon to perform certain services, or to pay certain fees to the proprietors. So long as these conditions are fulfilled they cannot be ejected from their fields; and if an attempt is made to eject them, they have the remedy by summary suit before the Collectors. If they fail to pay the rent legally demandable, the proprietor must sue them and on obtaining a decree in his favour, and failing, after it, to collect his dues, he may apply to the Collector to eject them and to give him possession of the land. It is impossible to lay down any fixed rule defining what classes of cultivators are to be considered entitled to hold at fixed rates. They are known in the different parts of country by different names, as *Chupperbund, Khoodkhast, Kudeemee, Mauroosee, Huqdar*, etc., all of which terms imply attachment to the soil or prescriptive right. Those who have no such right are commonly called *Kutcha assamies* or *pykast* . . . . Those who have for a course of years occupied the same field at the same rate or equitable rates, are held to possess the right

[14] Regulation viii of 1793, S. 52.

of continued occupancy, while those whose tenure is not similarly sanctioned are considered tenants-at-will."[15]

Thus it will be seen that the right of occupancy was asserted in a more or less complete form in every part of the Upper and Lower Provinces even before the passing of Act X of 1859. Act X was, however, the first important legislative attempt to establish the principle that the undisturbed occupancy during the period of twelve years was sufficient for acquiring an immunity from arbitrary ejectment or enhancement of rent.

But the Act did not define a right of occupancy or provide for its inheritance or its transfer. The right of occupancy was compared with a *profit a prendre* and Justice Mahmud compared it with *emphytensis.* As a general rule in the North-West Provinces a tenant's holding was not transferable without the zamindar's consent. The status of occupancy tenants was, therefore, variable and indefinite, and the courts charged with deciding such suits had to ascertain local custom in every case in which the tenants chose to plead it,—customs which in India are far from being fixed or easily ascertainable.[16]

Enhancement and Abatement of Rent.

The Act laid down different conditions for the enhancement or abatement of rent. Section 17 of the Act provided that rent could be enhanced under three conditions, namely:—

(1) that the rate of rent paid by the ryot was below the prevailing rate payable by the same class of ryots for land with similar advantages.

(2) that the productive power of the land had increased otherwise than by the agency or at the expense of the ryot.

(3) that the quantity of land had increased.

Similarly, every ryot having a right of occupancy could have claimed an abatement of rent if the area of holding had diminished by diluvion or otherwise, or the quantity of the land proved by measurement was less than the quantity for which rent had been paid or the value of the produce had decreased by any cause beyond the powers of the ryot.[17]

15 Directions for Settlement Officers, Ss. 128—130.

16 Per Mahmud J. in Gopal Pandey *vs.* Parsotam. 5 ALLD. 129.

17 Act X of 1859, S. 18.

Miscellaneous Provisions.

Among the miscellaneous provisions of the Act may be mentioned the taking away of the landholder's power of compelling the attendance of ryots for settlement of rent (S. 11); and re-enacting, with some modifications, the law as to delivery of leases (S. 2); and receipts (S. 10): the relinquishment of holdings (S. 19); the liability to damages for extortion or excess collections of rents (Secs. 10, 12); the measurement of lands (S. 26); the registration of tenures (S. 27); and distraint (S. 112).

Defects of the Act.

The Act had not long been in force before frequent complaints began to be heard relating to some of its provisions. It gave rise to a vast amount of litigation and far from providing, as was intended by its framers, a *Magna Charta* for tenants, it was in fact *Manga Charta* for landlords.[18] It was emphatically a Landlord's Act. The Act, as interpreted by the Judges of the Calcutta High Court in the case of Thakooranee Dossee, known as the Great Rent case, entirely changed the relative position of the ryot and the zemindar, taking up from the latter to give to the former a part of proprietorship in the land itself. The result was that the tenure of land, the institution which of all human institutions most affects the character of man, was, in all its features, most essentially changed.[19]

To take the occupancy right provisions first of all, it was remarked with regard to the Act that " in recognising the acquisition of a right of occupancy by the holding of land for twelve years, it undoubtedly went far beyond the custom and common law of these provinces: while in another direction it did not go far enough. It gave no more to men who had long held prescriptive rights, and who in many cases had a beneficial interest in the soil, than it did to the tenant-at-will, who had happened to retain the same field for a dozen of years; that is, it did not recognise the distinction between the rights possessed by tenants who have been the former proprietors of the land they cultivated and tenants who had acquired a right of occupancy by the mere lapse of time."[20]

18 So described by C. Currie. See ' Memorandum on Revision of Settlements. page 112, by Sir A. Colvin. Secretariat Library, Allahabad.

19 See Calcutta Review, 1865. The Great Rent Case, pp. 398—418. Imperial Library, Calcutta.

20 Speech of Mr. Inglis, Proceedings of the Legislative Council. Supplement Gazette of India, December 6, 1873, p. 1392. (Imperial Library, Calcutta.)

The twelve years' rule for the accrual of occupancy rights was undoubtedly the most mischievous rule in the whole body of the Act. Occupancy rights in India, even in the most troublous times, had never their origin by a prescribed time limit. Every resident (*Khudkasht*) cultivator always acquired the right of occupancy by tilling the soil unless he abused the customary terms of tenancy prevalent in the village. Non-occupancy tenants were in most cases non-resident cultivators in the village. This artificial distinction between occupancy and non-occupancy tenants dependent upon the cultivation of land for a period of twelve years was a creation of the British Government.

The Act further made no mention and took no account of the various local tenures prevalent in the country. The holders of such interests, most of whom had paid large sums upon the creation of their tenures, were placed on the same level as the tenant who had acquired occupancy right by the mere lapse of time. 'The Act so from settling the rights of such tenure holders grievously unsettled them.' (Field, *Landholding*. S. 424.)

The Famine Commission of 1880 made the following remarks on the working of the Act:—

> " Although the intention of the legislation of recent years has clearly been to define and protect the rights of the tenants, it is proved by evidence before us that the effect produced has been very different from the object aimed at. From all quarters it is reported that the relations between the landlords and the tenants with occupancy rights are not in a satisfactory state, and they are becoming yearly more and more hostile; so much so that landlord will generally refuse any aid to his occupancy tenants when they are in difficulties, and will do all he can to ruin them and drive them off the land. The reason for this hostility is that an opposition of interest has been created between the two classes; the occupancy tenant possesses a beneficial interest in the land and intercepts a portion of the profits which the landlord would obtain if he were able to exact from him the full rent which he can obtain from a tenant-at-will. The landlord is naturally but little anxious to help a tenant who is in a position, or on the road to it, in which his rights

> will make him comparatively independent of his landlord; and the fact that such rights are in constant course of accrual frequently results in an equally constant series of efforts on the landlord's part to prevent such accrual taking place. When it has been effected, the landlord's object is to harass the tenants and to diminish the value of his occupancy rights by bringing suit after suit for the enhancement of the rent. The probable result of such a struggle is in favour of the more powerful combatant, and there is no reason to fear that in many parts of the country the occupancy rights have been irretrievably impaired, and the point to which the efforts of the Government should be directed is, therefore, to remove this conflict of interests."

Various proposals were put forward by distinguished authorities for the amendment of the occupancy section. Sir Barnes Peacock, the Chief Justice of the Calcutta High Court, recommended the repeal of Section 6 altogether, because (1) it interfered with the just right of the zamindars at least in the permanently-settled districts, by vesting rights of occupancy in the ryots, which had no previous existence; (2) it tended to perpetuate small holdings, which must ultimately become injurious to the best interests of the country; (3) and by creating new rights of occupancy it imposed upon the Courts of Justice the necessity of settling the rents which the ryots, who had acquired such rights, were to pay, instead of leaving the parties to make their own arrangement. Sir William Muir, then the Senior Member of the N.-W. P. Board of Revenue, recommended 25 or at least 20 years' occupation as the minimum, together with evidence of two successions; or as an alternative, 25 years with one succession, or 16 years with two successions for acquiring the right of occupancy.[22] Sir William Muir's proposals would have unsettled the condition to a greater extent and the growth of the right of occupancy even in the case of some tenants would have been postponed. These, and other proposals, were much discussed, but when an amended Rent Bill for N.-W. P. was actually placed before the Legislative Council in 1873, the twelve years' rule for acquiring occupancy right was maintained,[23] while the

21 See Field, *Landholding*, S. 40.

22 See The N.-W. P. Rent Act, by H. F. House, I.C.S. Introduction, p. 47.

23 Act XVIII of 1873, S. 8.

right of ex-proprietary tenants were affirmed where existing, and guarded for the future by special provisions.[24]

The next serious defect in the Act was in connection with the provision regarding enhancement of rent. The Act clearly laid down the grounds for the enhancement of rent rates *independently of any rise in the Government revenue* which alone tradition had recognised as the ground for the enhancement of the rent rates. In a memorandum on the question of Settlement, Mr. C. Currie, Judicial Commissioner in Oudh, remarked that under the customary law in force prior to the promulgation of Act X of 1859, the tenants with rights of occupancy were entitled to hold lands at fixed rates; fixed, if not, in perpetuity, at any rate, for the currency of the settlement. Act X of 1859 changed all this; and caused a complete revolution in the Rent Law of the province.

There was a considerable rise in the rent rates on account of the severity of the early settlements which had led to the setting up of new zamindars who were less scrupulous in respecting caste feeling, they also had little regard for the generally acknowledged plea that the cultivator's rent should not be raised unless the revenue demand had been increased. Mr. F. N. Wright, Settlement Officer, Cawnpore, 1878, remarked that " The result of the last settlement was to dispossess large numbers of the old zamindars and to set up purchasers in their place. Such landlords, when they find themselves able to do so, would have less scruple in enhancing the rents of their cultivators."[25] The following table reproduced from the Settlement Report shows the number of enhancement cases brought under Act X of 1859. It would appear from the table that there were 799 applications for enhancement affecting 5,304 acres, the enhancement (1) by order of court was from Rs. 3-10-8 to Rs. 4-10-0 or Rs. 1-0-8 per acre; (2) by arbitration from Rs. 3-9-5 to Rs. 4-8-0 or Re. 0-14-7 per acre, and (3) by compromise from Rs. 3-9-8 to Rs. 4-3-8 or Re. 0-10-0 per acre, or to put it in another way the enhancement in (1) was 0-4-5, in (2) 4as. 1p. and (3) 2 as. 9 pies in the rupee.

24 Act XVIII of 1878, Ss. 20 and 7.

25 Final Report on the Settlement of the Cawnpore District, p. 61.

ENHANCEMENT STATEMENT UNDER ACT X 1859.

Name of pargana	Total number of cases	Area in suit	By order of Court		By arbitration		By compromise		Enhancement per acre			Enhancement per Rupee		
			Former rate	Rate decreed	Former rate	Rate decreed	Former Rate	Rate decreed	By order of Court	By arbitration	By compromise	By order of Court	By arbitration	By compromise
			Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.
Shiurajpur, Central.	99	464	5 2 11	6 9 7	5 8 9	6 14 1	3 10 6	4 10 10	1 6 8	1 0 4	1 0 4	0 4 4	0 3 10	0 4 6
Akbarpur ...	208	1,268	3 15 10	5 1 9	2 6 4	2 13 1	4 0 4	4 11 8	1 1 11	0 6 9	0 11 4	0 4 6	0 2 10	0 2 10
Sarh Salempur.	46	109	4 1 6	5 12 2	5 4 3	7 2 3	2 11 4	3 3 0	1 13 8	1 14 0	0 7 8	0 7 3	0 5 8	0 2 10
Derapur ...	181	1,218	3 11 2	4 9 5	3 7 4	4 5 5	4 6 1	5 5 4	0 14 3	0 14 1	0 15 3	0 3 10	0 4 1	0 3 6
Sikandra ...	46	241	2 15 7	3 12 9	3 1 8	3 14 1	4 6 4	4 9 9	0 13 2	0 12 5	0 3 5	0 4 5	0 3 11	0 0 9
Bhognipur ...	123	1,152	2 15 8	3 13 7	2 12 7	3 14 4	2 11 9	3 8 2	0 13 11	1 1 9	0 12 5	0 4 8	0 6 4	0 4 7
Ghatampur ...	96	853	3 3 7	4 1 3	2 11 4	3 0 8	2 15 0	3 5 5	0 13 8	0 5 4	0 6 5	0 4 8	0 2 0	0 2 2
District ...	799	5,305	3 10 8	4 10 10	3 9 5	4 8 0	3 9 8	4 3 8	1 0 2	0 14 7	0 10 [illegible]	0 4 5	0 4 1	0 2 9

The Act declared that the ryots having the right of occupancy should be entitled to pay 'fair and equitable rates.' In determining fair and equitable rates to be paid by the tenant the Court fell back on the simpler procedure of reference to rates prevalent in adjacent lands,[26] which by no means were conclusive evidence for the enhancement of the rent. Before the passing of the Act rents were fixed under the Settlement Regulations by the settlement officers, and the occupancy tenants, as the term was then understood, were entitled to pay rents at those rates, if not in perpetuity at least during the currency of the settlement. By the passing of the Act the powers of the settlement officers for fixing a fair rent were curtailed and rents could only be enhanced within the four corners of the Act. Thus at every revision of the settlements, the settlement officers adopted as the basis of assessments *assumed rent rates* which, though not actually paid in every instance, were yet so generally paid that those paying lower rates might, upon revision of settlement, be fairly called upon to pay them. The result was that the rent rates were enhanced in almost every revision of settlement and in the majority of cases the tenants began to be rack-rented.

The Act did a great injustice to the cultivators when it completely effaced their immemorial customary rights. Their rents were formerly governed by *pargana* rates and custom played a very important part in the fixation of rent. In a Memorandum written in 1861, on the Oudh Land Controversy by Sir William Muir, then Foreign Secretary, much light is thrown on the stability and permanence of what were then called 'Customary rents' both in Oudh and in parts of the North-West Provinces. In some Districts the customary rents were invariable. Certain castes, such as Brahmins, Thakurs, and Kayasth, were privilged to hold at lower rates, and the resident cultivator had some advantages; but, in other respects, the prevailing rates were seldom, if ever, departed from.

The position of non-occupancy tenants was even worse for their rents and tenure depended entirely upon the will of the landlords. The Act made no definite provision relating to their tenure and status.

Act XVIII of 1873.

In 1872 a Bill was introduced in the Legislative Council, for the Codification of Revenue Regulations, which became the

26 Section 17, Clause I, Act X of 1859.

Land Revenue Act XIX of 1873. While the first Bill was still in progress an amended Rent Bill, applicable to the North-Western Provinces, was introduced by Mr. J. F. Inglis on the 18th February, 1873, which became Act XVIII of 1873.

An attempt was made in these two Acts to grapple with the difficulty relating to the enhancement of rents. The powers of the Revenue Courts were increased and appeals were to lie not to the Civil Courts but to the Revenue Authorities. Arrangements were also made for the fair and full valuation of rents by the settlement officers at the time of settlements. On the question of period during which enhancement again should not be made there were widely different views. Under the Act of 1859 no limit was fixed within which a second suit for enhancement might be brought, hence the tenants were harassed with suit after suit for the enhancement of rents and the value of their occupancy rights was considerably diminished. It was then proposed that a period of time should be fixed during which no suit for enhancement should be considered. Objections were raised to this proposal by Sir William Muir. 'It would have been open to the British Government,' he said, "on its first accession to have laid down the principle that rent and revenue were to be fixed for coterminous periods. Nay, at a much later period while the relative rights of the landlord and tenant were as yet hardly settled by the administration of a fixed and uniform system this might have been possible. Forty years ago the proposal was urged by Mr. Robert Merttins Bird, and was then fully discussed by the Government of India and its Chief Officers: and the conclusion was then deliberately come to that such a course was inconsistent with the rights of the zamindar and the prevailing condition of the cultivator. That decision might have been right or it might have been wrong: the question was no longer open to discussion. To have now declared rent and revenue to be equally fixed for the same term would not only have uprooted the revenue system of more than half a century and created new and unexpected rights, but it would have injured and abated the landed title which had grown up under that system. Properties had passed from hand to hand; estates had been sold for Government balances and for decrees of Court: rights and expectations had grown up and become matured under the system of a modified power of enhancement to the level of prevailing rates of rent. For a great and imperious political object indeed, it might have been open to the Government, even at the expense of these expectations, to have altered the system. No legislative enactment had expressly defined

the rights of zamindar in this respect, or limited the power of Government to interfere for the protection of the ryot. But no such emergency now existed, and it would have been in the last degree inexpedient and unwise to have reversed the policy on which the relations of the proprietor and tenant had now for so long a time adjusted themselves."[27] On the other hand it was pointed out by Mr. Ellis[28] that if a decision of the Government was found to be wrong in principle after the lapse of time there was no reason why it should not be altered then. The tenants would be materially benefited and would be induced to spend money on the improvement of their land if they were protected against enhancement for the whole period of the Settlement. Sir William Muir's views, however, prevailed, and a period of ten years was fixed instead of the longer period of settlement for the enhancement of rents.

Another very important portion of the Act related to the ex-proprietary tenants. The position of ex-proprietary tenants was recognised even before the passing of the Act X of 1859. Mr. Thomason's views, as early as 1843, were that if an estate was sold in satisfaction of an arrear of revenue due to Government, the proprietors only lost their-proprietary character; and if they were also the cultivators of the soil, they were entitled to hold their *Sir* or *Khudkast* at fixed rates from the landlord.[29] Sir William Muir was also of opinion that the ex-proprietary tenants were entitled to protection from the constant and irritating attempts on the part of the landlords. " I cannot conceive," he said, " that any important person will oppose the protection of these classes as an infringement of the rights of the proprietors. The State had always held itself at liberty to restrain the zamindar for the benefit of the tenant. No absolute or exclusive right in the zamindar has ever been admitted or declared. There is nothing in the previous position of the zamindar that would bar the Government in upholding the rights of any class of cultivators: and in recognising the zamindar as proprietor, not merely as the passer-on of the rental, but as entitled to all the profit arising from the limitation of the Government demand, it has nowhere been conceded that he is in possession of any

27 Supplement, Gazette of India, December 13, 1873, pp. 1337-8, Imperial Library, Calcutta.

28 Supplement, Gazette of India, December 13, 1873, pp. 1346-7, Imperial Library, Calcutta.

29 Directions for Settlement Officers, S. 132. See Section 28, Act XII of 1841.

indefeasible power of enhancement. The proprietor cannot therefore complain if we limit his power of enhancement in respect of certain classes possessed of an anterior interest in the soil."[30] The rents of ex-proprietary tenants were to be four annas in a rupee less than the prevailing rate payable by tenants-at-will for land of similar qualities and similar advantages.[31] The rents of ex-proprietary tenants could be enhanced during the currency of settlement in the same way as the rent of occupancy tenants.

Compensation for Improvements.

Act X of 1859 contained no provisions respecting the tenant's right to compensation for improvement. With regard to wells, the Courts laid down very strict rules against tenants. Thus a full Bench of N-W. P. High Court in 1867 ruled that the digging of even a *kutcha* well by a tenant with right of occupancy would be a breach of contract, giving the landlord a right of ejectment. This view was, however, considerably modified before the passing of Act XVIII of 1873. But it is scarcely too much to say that no tenant was likely to make any improvement in the land except in the shape of wells. The provisions, however, depended entirely on the voluntary action of the tenants, and it was found that owing to the ignorance of the tenants the sections were a mere nullity.

Act XII of 1881.

In consequence of the recommendations of the Famine Commission another Bill was introduced into the Legislative Council by Mr. B. W. Colvin for the amendment of the Act XVIII of 1873 on the 12th March, 1880. The Bill was passed on the 11th March, 1880, and became Act XII of 1881.

The Act was again an earnest endeavour to remove the opposition of interests which had been created between the landlord and the tenant. The Act, however, maintained the 'twelve years' rule' for the accrual of the occupancy right which was mainly responsible for creating antagonism between the two classes. As early as 1882 the Board of Revenue noted the existence of this ill-feeling and remarked that 'the main, though by no means the only, reason of the antagonism between the two

30 Supplement, Gazette of India, February 1, 1873, p. 192, Imperial Library, Calcutta.

31 Act XVIII of 1873, S. 7.

classes is what is known as the 'twelve years' rule.' The landlord, who is a creation of British Government and who was a farmer of revenue in the first quarter of the 19th century, inspired by the English conception of land ownership, seized the opportunity to rack-rent the tenants. The growth of occupancy right diminished the value of their property, and as this depended upon the continuous cultivation of the same land for a period of twelve years, they themselves steadily tried to prevent its accrual. The extent to which, this practice was resorted to is shown by the remarks of the Board of Revenue on the subject of ejectment in the Revenue Administration Reports for the years 1891-1892, 1892-93 and 1893-94.

"Applications for ejectment of tenants-at-will under section 36 rose from 57,875 to 64,353 an increase of 6,478. . . The main object of landholders in issuing these notices doubtless is to prevent the accrual of right of occupancy before the twelve years' period of occupation has been completed, more especially where, and at times when, enhancement of rent is possible. It seems reasonable, therefore, to connect the increase in the notices of ejectment in the western and central districts with the state of the harvests, and to conclude, as several officers have done, that these notices tend to become more numerous when the seasons are prosperous. Among others, the Commissioner of Agra, who has given careful attention to the working of the ejectment sections of the Rent Act, thinks that the circumstances of the year in his division show conclusively that a rise in suits and applications follow from prosperity. He notices that in Muttra, Etah and Etawah there has been a reduction of revenue, and that this taken with the favourable harvests, has led to an increase in litigation." Mr. Neale's remarks on the subject may also be quoted. He writes,

> "The leading idea in the zamindar's mind when the harvests are good is to increase his rent either by direct suit or by the terrors of ejectment. The tenant in the latter case generally submits; it is cheaper, at all events for the moment. In my opinion zamindars are not anxious as a rule to evict their tenantry. They are not governed by the 'commercial principles' of the West. It is rather the obstinate right of the occupancy defaulter whom they attack . . . .The ne'er-do-well tenant they let alone from compassion, partly from the feeling that he is always in their power,

> and partly because they hope to grind something out of him in future years. But they have, as a body, no intention to let the budding occupancy-tenant grow to maturity, nor to pass by a good harvest without securing some of the extra profit to their own share. This spirit is extending; it is essentially the modern spirit. And as our rent-laws are conceived in that spirit we should be not surprised if it produces its natural result."[32]

The same story was repeated in the Revenue Administration Report for the year 1892-93;

" Applications under section 36 for ejectment of tenants-at-will rose from 64,353 to 65,665 an increase of 1,312 . . . . The increase (in the Agra division) is ascribed, like that of the last year, to the excellence of the harvests, and the improvements in the condition of the deteriorated tracts in the Division. Thus the Collector of Etah writes, 'Up to the date the cry has been for more tenants, and ejectments were sparingly employed. Now, on the contrary, a reaction has set in. Land seems more valuable. Tenants who gave up occupancy land in times of distress reassert claims to it. Landlords, on the other hand, oppose such claim, and endeavour in all other cases to render impossible the acquisition of rights of occupancy.' The increase in Rohilkhand was most marked in Moradabad, where 568 more notices were issued than in the previous year. The Collector again reports acute tension between landlords and tenants and remarks on the constant resistance to the growth of occupancy rights, which secure to the tenant a fixed cash rent.

" There is little to be added to the remarks on the subject of ejectment notices that were made in last report; and the statistics of the year under review support, on the whole, the conclusions then stated, that these notices tend to become more numerous when the seasons are prosperous. Besides this, the approach of settlement in some districts is intensifying the struggle between landlords and tenants over rights of occupancy. This struggle is the inevitable result of the law in respect to occupancy right, which confers fixity of tenure on those tenants who succeeded in retaining their holdings for a period of twelve years; and it is by no means to the ultimate advantage of the majority of the tenants who engage in it. The undoubted benefits

32 Revenue Administration Report, 1891-92, p. 33.

of the tenancy clauses of the Rent Act are attended by a serious drawback in the amount of litigation which they produce."[33]

In 1893-94 the 'applications under section 36 for ejectment of tenants-at-will rose from 65,665, to 72,105, an increase of 6,440.' These remarks of the Board of Revenue clearly indicate that the struggle between landlords and tenants over the accrual of the occupancy right was becoming keener and keener and area held by occupancy tenants was being steadily reduced. The amount of ruinous litigation that was carried on to check the accrual of such rights can very well be seen from the increase in the number of notices for ejectment of tenants-at-will year after year.

Year.		Number of Notices.	Increase.
1891-92	..	57.875 to 64,353	6,478
1892-93	..	64,353 to 65,665	1,313
1893-94	..	65,665 to 72,105	6.440

The large increase in the number of notices is also a clear indication of the fact that the area held by occupancy tenants must have steadily declined. The Government also instituted an inquiry which revealed that in 1882-83 the area held by occupancy tenants was 63·92 and in 1897-98 the area under occupancy tenants had fallen to 58·38. This investigation proved that there was a steady deterioration in the position of occupancy tenants and that this retrogression was due to the unsatisfactory tenant law in the province. This practice of ejectment was fatal to agricultural progress and to the true interests of landlord, the tenant and the Government. It was wholly incompatible with the existence of a contended, solvent and industrious peasantry. The Hon'ble the President of the North-Western Provinces Council in his speech on the N.-W. P. Tenancy Bill forcibly remarked thus: 'I assert unhesitatingly that a rent law which permits of the arbitrary ejectment of industrious tenants who have cultivated land for generations, who have punctually paid their rents, and whose only fault in the landlord's eyes, is that they are about to acquire the status which the law intended they should in the circumstances acquire— I say a rent system which permits of such results stands

33 Revenue Administration Report, 1892, 98.

self-condemned.[34] It led to a high degree of antagonism between the landlord and the tenant and produced hardships of an intolerable kind. The Act of 1887 was also full of badly expressed sections and was liable to misinterpretation. In the well-known commentary on the Act by Mr. H. F. House, it is referred to as 'one of the most slovenly and slipshod enactments on the Indian Statute-Book' and in this connection the commentator further remarks that the 'consequence is that it is the rule rather than the exception for the rulings in two cases on the same point to be at variance.'[35]

Act II of 1901.

The Government accordingly decided to introduce another Bill to improve the position of the tenants, and to harmonise the relations between the landlord and the tenant. The Bill met spirited opposition from the landholders of the province especially concerning two cardinal points in the Bill, *viz.*, the acquisition of occupancy rights and the ejectment of non-occupancy tenants. The Government view, however, prevailed, and in spite of the opposition of the landlords the Bill received the assent of Sir Antony Macdonnell and became N.-W. P. Tenancy Act II of 1901.

The Act recognised the following five classes of tenants:—

(*a*) Permanent tenure-holders.

(*b*) Fixed-rate tenants.

(*c*) Ex-proprietary tenants.

(*d*) Occupancy tenants.

(*e*) Non-occupancy tenants.

We have already discussed the first three classes of tenants elsewhere. No important change was made in the status and law relating to these classes. But important changes were made with regard to occupancy tenants. A tenant who had held the same land continuously for a period of 12 years acquired the right of occupancy. 'Same land' was defined to mean 'any land owned by the same landlord.' In order to prevent landlords

34 Proceedings of Legislative Council, the North-Western Provinces, Speech of the Hon'ble the President on Tenancy Bill, 15th November, 1900. U. P. Legislative Council Library, Lucknow.

35 N.-W. P. Rent Act by H. F. House, I.C.S., pp. 67-68.

from resisting the accrual of the occupancy right the Act of 1901 declared that the growth of the occupancy right shall not be defeated merely by the landlord's changing the fields of the holding, or ejecting the tenant and immediately after readmitting him to the possession. A tenant who has been allowed to hold the same land for 12 years undisturbed acquired the right of occupancy although the land so cultivated may have been different at different times.

Various proposals were made with the view of attaining the object. It was proposed that when a tenant holding any land from a landholder ceases to hold that land but commences to hold another land under the same landlord under circumstances from which it might be inferred that the other land was in lieu of the previous land, it shall be inferred for the purpose of section 8 of Act XII of 1881 that there was no break in the continuity of land for the accrual of the right of occupancy. This proposal was based on the provision of section 54 of the Central Provinces Tenancy Act of 1898 and section 7 of the Punjab Tenancy Act 1887. This proposal would have unnecessarily imposed upon the courts the difficult task of deciding in each case whether the shifting was an exchange or not. It would have opened a loophole and would have led to unnecessary litigation and fabrication of evidence. The proposal was rightly rejected.

Attempts were also made in the Act to induce the landlords to give to their tenants some fixity of tenures by granting long term leases.[36] Under the provisions of Section 8 of the Act of 1881 a lease was a document which prevented the growth of occupancy right during the currency of its term. A short term lease barring the growth of occupancy right was injurious to the prosperity of the agricultural community as it prevented fixity of tenure even to a small extent. The Act of 1901 laid down that 'no tenant shall acquire a right of occupancy in any land which he holds as a lessee, under a registered lease, for a term of not less than 7 years.' In other words, the intention of the legislation was that if a lease for a term of less than 7 years be given the term would count towards the growth of occupancy rights. This plan led to three desirable ends:—

(*i*) the removal of the impediment to the fixity of tenure which short term leases imposed;

(*ii*) the encouragement of 7 years' leases; and

36 See the Report of the Select Committee on the North-Western Provinces Tenancy Bill, 1900.

(*iii*) the removal of the necessity which a landlord felt for ejecting a tenant to prevent the accrual of the occupancy right.

The other change of importance related to the ejectment of non-occupancy tenants. If a landlord wanted to eject a non-occupancy tenant no check other than the conditions of the lease or an order of the court was placed upon him in the exercise of this power. If, however, the dispute between the landlord and the tenant arose because the tenant refused to pay a higher rent and a notice of ejectment was issued, the Act provided that the court will give the tenant the option of accepting a 'fair' rent or vacating his holding. If the tenant agreed to pay the higher rent fixed by the court, he would be entitled to remain in his holding for 7 years and the period would not count towards the accrual of occupancy right.

It is obvious that the intention of the Act was to facilitate fixity of tenure and fair rents. The Act was framed in imitation of the Bengal Tenancy Law, the acknowledged success of which was beyond doubt, and under which about 90 per cent of the cultivators acquired the occupancy right. In spite of the spirited opposition and the so-called changes introduced in the law, the means adopted were really in the nature of a compromise. No serious attempt was made to introduce radical changes in the existing system of land tenure. The non-occupancy tenants were given the semblance of fixity of tenure by making the legal procedure of ejectment more difficult and expensive; by providing that the nominal ejectment and shifting of cultivators from plot to plot would be no bar to the accrual of occupancy rights provided the cultivator was in possession of land for 12 years under the same zamindar and lastly by introducing that leases for 7 years or more would bar the growth of occupancy rights.

Doubts, however, were expressed from the very beginning regarding the wholesome effects of these provisions, and time has proved those doubts. 'It is true that the area recorded as held under occupancy rights or for more than 12 years has increased between the year 1903-04 and 1921-22 from 12,709,000 to 14,366,000 acres or by 13 per cent. But of this increase 493,000 acres are accounted for the Jhansi division, in which the conditions are peculiar and the competition is for tenants rather than for land. Further, though occupancy rights have no doubt often been conferred in return for a lump payment or agreement to pay an enhanced rent, the growth in area has also been due in part to fraud, mistake and accident. Moreover,

such increase as has taken place has been attained at the cost of an immense and growing litigation.[37] The average number of ejectments before the Act II of 1901 was passed was 57,000, while the number of ejectments in the years ending 1922-23 averaged 127,000 and in the year 1922-23 was 15700. The landlord did not acquire the habit of granting long term leases and the area under 7 years' leases never reached one million acres in the whole province, and such leases were confined to Gorakhpur, Basti and Meerut Division. The periodic protected tenancy depending on the consent of the landlord was also a fruitful cause of tenancy exploitation and of the levy of illegal exactions in various guises. The law regarding the enhancement of rent, though subjected to legal control, was commonly evaded as the demand for land was keen. The landlords had also legitimate grievances under the restrictions placed for the enhancement of the rents of occupancy ryots. No doubt the law provided that their rents could be enhanced by:—

(*a*) Comparing the rent paid by occupancy tenants for land of similar quality and with similar advantages,

(*b*) proving that there has been a rise in the average level of prices.

But these provisions threw an apple of discord between landlord and tenant and were responsible for ruinous litigation. The result was that the rents of occupancy tenants did not undergo much change during the currency of the settlement and the practice of subletting was encouraged to a large extent. Judging the Act whether from the point of view of landlord or tenant, it satisfied none and often strained and embittered their relations. The system inevitably involved friction and did not satisfy even one of the essential conditions for a good system of tenure in the case of non-occupancy tenants, *e.g.*, fixity of tenure and fair rents.

The verdict on the Act, on which high hopes were built by Sir (afterwards Lord) Antony MacDonnell's Government is recorded in the Government Resolution dated 28th April, 1924, announcing the appointment of a Select Committee to examine the defects in the Act of 1901, the object of which was to secure

[37] Speech of Hon'ble Sir Samuel O'Donnell, United Provinces Legislative Council, March 21, 1926.

for the tenants in the province of Agra to a larger extent than the law previously in force had allowed fixity of tenure and fair rents. The Resolution further added that the Act had failed to produce a lasting solution of the agrarian problem inasmuch as it had not succeeded in securing reasonable fixity of tenure and freedom from excessive enhancement of rent for a large portion of the tenantry. In introducing the Bill of the Act of 1901, Mr. Evans, the Government Member in charge of it, concluded his observations with the following remarks:—

> "In asking permission to place the Bill before the Council I should express a hope that to this Council will fall the honour of passing a measure that may be found hereafter to have solved for these provinces the difficult problems on the one hand of protecting the tenants from arbitrary treatment, and of giving security of tenure and some guarantee against unfairness of rent; and on the other of removing causes that have led to hostility between landlords and tenants in the past of proving to the landlord that the prosperity of his tenant is not only not inconsistent with his own interests but is the surest guarantee of his advancement."

If Mr. Evans were to read the judgment of the present Government on the Act, as recorded in the Resolution, on which Sir Antony MacDonnell had built such high hopes, Mr. Evans would undoubtedly receive a severe shock.

These defects were recognised as early as 1916—18 and a Bill was published in 1918 containing some far-reaching changes in many respects. The time, it was thought, was rather inopportune and the Bill was dropped for the time being. But the consensus of opinion was that the Act required a radical change in order to satisfy new ideas and new aspirations even amongst the backward agricultural classes after the stress of war and the epoch-making change in the political world which followed it. It was decided in 1923 to appoint a Select Committee with instructions to examine the Act II of 1901, to suggest change and to submit a draft Bill. The Draft Bill, as submitted by the Select Committee, was presented to the Legislative Council on July 1, 1926, and after heated discussions and strenuous opposition on the part of the landlords to throw out the Bill, the Bill was passed by 40 votes against 28, on 31st July, 1926.

Act III of 1926.

The Agra Tenancy Act of 1926 has abrogated the old time-limit of twelve years for the accrual of occupancy rights. Occupancy right can now no more be acquired by the mere lapse of time. All existing rights will of course be scrupulously retained, and occupancy rights may be acquired by grant or sale as frequently as they have been in the past. Thus the twelve years' rule, that fruitful source of litigation, first started in 1859, after causing much havoc in agricultural community, is now abrogated. For more than 65 years the rule was in force and it is difficult to imagine the amount of ruinous and harassing litigation, intolerable hardships and bloody reprisals to which it led. If one were to calculate the number of ejectment notices issued under this rule from 1859 till the passing of the present Act, the number would reach an alarming figure. Again, if one were to estimate the amount of time and money spent over such litigation, the result would be an eye-opener to the land-holding classes who appealed to the Government in the name of law, order and loyalty to overthrow the Bill.

The Act in order to increase fixity of tenure granted the right of life-tenancy to every tenant-in-chief other than a tenant in *Sir*, with the right to the heir to hold on for another five years after the latter's death. This is a wholesome provision as it has vastly increased the fixity of tenure which was wanting under the Act of 1901. The Act has introduced the system of roster years for the revision of rents. A roster year is defined in the Act as ' an agricultural year fixed by the Local Government in respect of any district or other local area for the determination of fair and equitable rates for the purpose of suits for enhancement and abatement of rents of fixed-rate tenants, ex-proprietary tenants, occupancy tenants, statutory tenants and heirs of statutory tenants. The roster year shall be so fixed that the last year during the term of settlement shall coincide as nearly as conveniently may be, with the last year of such term. The other changes introduced in the Act may briefly be summed as follows:—

(1) Enlargement of the *Sir* area with an elastic provision for its further increase in future;

(2) Zamindar's power of compulsory acquisition of land from ex-proprietary, occupancy, statutory tenants and heir of statutory tenant for the purpose of farming on improved lines and for certain other purposes mentioned in the Act;

(3) introduction of cheaper and simpler methods for the realisation of rent;

(4) Right of landlord to make improvement affecting the holding of a tenant not having a right of occupancy with or without his consent: and on the holding of a tenant having a right of occupancy with the written consent of the tenant.

The present Act is also in the nature of a compromise. It is nothing but a make-shift arrangement to meet the exigencies of the time. We have our misgivings whether the Act will provide a lasting solution for the ever-growing agrarian problems in this province and the historian of the future may not have to record the same unfavourable verdict on the present Act, which was recorded by the present Government on the Act II of 1901. The issues which confront us in this connection are plain and simple:—

(1) Does the Act provide a lasting solution for the agrarian problems in this province?

(2) Will it secure a stable and contended peasantry ?

(3) Will it lead to greater application of labour and capital and increase the productive capacity of the soil?

(4) Will it reduce the volume of litigation ?

(5) Will it secure the peasants from excessive enhancement of rent?

We reserve the answer to these questions for a subsequent issue of the Journal.

SOCIAL WELFARE. A REFINEMENT OF THE POLITICAL AND ECONOMIC THEORY OF THE END OF THE STATE

BY

J. K. MEHTA

University of Allahabad.

The problem of what constitutes social good or social welfare is of importance for the practical economist, the politician and the ethical philosopher alike. The economist is directly brought in touch with this problem in the study of public finance. I say, *brought in touch with* and not *faced with* only because the economist as such is not directly concerned with the investigation of the problem of what social welfare consists in. On this question he takes the teachings of the ethical philosophers for granted; they define social welfare for him and he confines himself more or less to the study of the effects of various state or governmental activities on that welfare. But, however scientific an attitude the economist may take his attention is bound to be drawn at times to the bewildering question of what exactly constitutes that social welfare. Nor is it possible for him to speculate on the effects of a particular State activity on social welfare without knowing its precise nature. With the contents of welfare as such he is not directly concerned. His discussion of the problem of social welfare, whenever he chooses to tackle it, postulates a knowledge of welfare conceived in its pure individualistic aspect; and the whole problem is considered by him as one of the relation between individual and social welfare. That the relation is a simple mathematical one is maintained by some who more often assume than attempt to prove the same. For others, however, the relationship is not so simple or direct—the society is indeed more (or less!) than the sum total of the individuals that compose it. But how and in what manner the two quantities—individual and social welfare—differ is a quest that drags them into the arid regions of metaphysical speculation, where for the proof of their contention an appeal is more often made to intuitive understanding than to the irresistible iron laws of logic.

The economist, we have said, is not directly concerned with the question of what constitutes social welfare. But that he is at all concerned with it is not adequately realised till the sequence of reasoning leading to this problem is clearly indicated. The study of public finance, which must be regarded as a part of the study of economics in its widest sense, is the study of the co-operative aspect of the economic life of individuals. For the economist the State is a giant co-operative institution and public finance the science of the financial operations of that great body. The State is thus identified with the non-competing, common elements in the personalities of individuals. Since the aim of the individual is his welfare, the aim of the State becomes the welfare of that co-operative body. The first or the guiding principle of public finance is thus indicated to consist in the increase of the welfare of the collective body or the society. Every activity in the domain of public finance is motivated by the desire to add to or secure social welfare. Whether we call this desideratum social welfare, collective welfare, or the welfare of the co-operating elements of the personalities of individuals is a mere matter of choice of words. The fact that emerges is that in the study of public finance the fundamental conception is that of social good. But though the foregoing reasoning has brought out the importance of this concept in the study of public finance there is nothing in it that has clearly indicated the contents of that elusive term. In what follows, therefore, we shall address ourselves to this problem.

Social welfare may be considered to follow as a result of social service and individual welfare may similarly be conceived as the result of some service performed specially for an individual. The problem then before us is to find the exact nature of difference between social and individual service. The relation that suggests itself at the very outset is that social welfare is measured by the sum total of the good done to individuals. To see if this is really the correct relationship let us proceed to investigate the problem by asking ourselves a series of questions.

For the time being let us suppose that no act of the State has any long period effect; in other words, let us only take the immediate effects into consideration.

If a service is rendered to a rich man, can it be regarded as a contribution to social welfare? We will have to answer this question in the affirmative with the proviso that the cost of performing the service is not taken into account. For, it is a positive contribution in itself and does not detract the least

amount from the welfare of others. We may, therefore, maintain that, other things being the same, any service that can be regarded as a source of contribution to individual welfare must be recognised as making a positive contribution to social welfare also.[1]

Next we may enquire if the transfer of a measure of welfare from one individual to another, not necessarily of the same type, is a contribution to social welfare? It may here be objected that such a transfer is impossible to effect, because as the transfer of welfare can only be effected by a transfer of economic means, the amount added to the welfare of one individual cannot by any means be equal to the amount that is subtracted from that of the other. But we shall ignore such impossibilities here, because our object is not to formulate policies or lay down general lines for the guidance of the statesman but merely to discover differences between two kinds of welfare theoretically conceivable. A possible answer, therefore, is that such a transfer cannot be regarded as keeping the social satisfaction or welfare unaltered. For, it may be said that, though the addition to welfare in one case shall counterbalance the equal loss of satisfaction in the other, there is an additional element of welfare created by such a transfer. Other members of society, whom we have to suppose as being aware of such a transfer, will receive a positive contribution to their welfare when the transfer is made from the less well off to the better off person. This we are able to say on the strength of the fact that men desire equality of well-being for its own sake. There is in our mind a not too clearly conceived notion of abstract justice the desire for which finds satisfaction in a state of greater equality of well-being.

Now then when we hold that the transfer of a measure of welfare from one man to another, not of exactly the same type, does not leave the state of social welfare unaffected, our statement might perhaps be taken to imply that social welfare is, therefore, not the mere sum of the welfare of individuals. But such is not in reality the implication of our statement. For,

[1] It may here be objected that such a line of argument assumes what is really required to be proved, that is, it assumes to start with that social welfare is the sum of individual welfare. This may be a correct assertion and yet is not a valid objection. For, the discussion proves the legitimacy of the assumption; and there is no other line of approach to the problem. The reader is asked to follow the reasoning patiently before he forms any opinion on the validity of the procedure here adopted.

when social welfare is said to have increased it is on the recognition of the increase of welfare accruing to the third party. That body of people being ignored there is no alteration in the stock of social welfare. Thus, it should be abundantly clear that in arriving at our conclusion we have taken note of the welfare of all individuals that compose the society. Nothing, therefore, that has so far been considered points to the fact that social satisfaction is not the satisfaction of individuals considered in a body.

Now if we relax our assumption that there is no long run effects of any State activity, that is, if we take full account of all the repercussions of a State activity on the welfare of all the members of the community, we do nothing besides allowing time to effect all possible changes in the satisfaction or welfare of all the people and, therefore, our conclusion that in measuring social welfare we take account of the welfare of individuals is not in any way affected. An act is, therefore, an act of social service if the sum total of individual welfares is thereby increased, provided a sufficiently long period view is taken. Such an act may, and perhaps always will, decrease the welfare of some individuals and increase that of others.

Now the only difficulty concerning the problem that remains relates to the question of the summing up of the welfare of individuals. How can we, it may be questioned, either calculate or sum up the welfare of different individuals?[2] And if we

2 This, it may be remarked, places the stamp of Utilitarianism on our theory. Ours is really the Utilitarian doctrine of Bentham and Mill, purged, however, of its objectionable or provocative elements. Bentham's reasoning implied that the pleasure or pain of individuals could be summed up in the same sense and with the same precision, as quantities in arithmetic; and Mill perhaps assumed very much the same thing. This assumption of the possibility of extending the mathematical method to the case of human feelings was very severely criticised. We, however, do not make any claim to such a possibility. Pleasurable or painful feelings of individuals cannot be accurately measured or summed up into a *real* quantitative measure of social happiness. But the State that is identified with the governing body for a rational treatment of all such problems, estimates the pleasurable and painful feelings of individuals and thereby comes to feel the balance one way or the other. Whether the estimate is correct or not, it is only the balance that is important practically and is postulated in our Utilitarianism. Our doctrine, therefore, may be distinguished from that of Bentham and Mill by calling it psychological Utilitarianism against their mathematical Utilitarianism.

It will be observed that all through our discussion we have taken the view that the State must be identified with the governing body. That this identity is not deliberately suggested, without sufficient justification, to support the theory

cannot do so how can we at all be able to say that such and such an act increases social good? This is an intelligent question as far as it goes. However, there is an allied question which may profitably be taken up along with it. Even if it be possible to calculate and sum up the welfare enjoyed by individuals, why is it that the people who identify themselves with the State strive to maximise this total of individuals' welfare and not their own?[3] The answer is that, as a matter of fact, the people who identify themselves with the State do strive to maximise their own welfare, but they are so constituted by nature that their own well-being depends on the well-being of others in such a manner that the greater the benefit* the individuals derive greater is their own satisfaction. Their mind is a kind of barometer that registers the satisfaction enjoyed by others.[4]

But even this explanation will not at once satisfy the reader. For, he might say that by maximising their own welfare the people, who identify themselves with the State, could maximise the real total of individuals' welfare only if their mind most accurately registered all feelings of satisfaction experienced by individuals. And since such sensitive minds do not exist the maximisation of social welfare is only imperfectly effected.

the author puts forward in this paper, will be realised by the reader on a careful study of the first chapter of Laski's *A Grammar of Politics*. He says, on page 28, " Any theory of political action must be a theory which visualises the men who operate the daily administration of its machinery. A theory of State, that is to say, is essentially a theory of the government act . . . The will of the State, therefore, seems to mean the will of the government."

Again, on page 35 he says, " A working theory of the State must, in fact, be conceived in administrative terms. Its will is the decision arrived at by a small number of men to whom is confided the legal power of making decisions."

3 Prof. Laski is evidently hinting at this difficulty when he says, " And, if, as with Bentham and the Utilitarians, we ground the whole upon utility, the difficulty arises of explaining to whom the particular State is useful. . . . "

* The words welfare, benefit and satisfaction in this article are used as synonyms.

4 This point which is accepted by all ethical philosophers is discussed in a stimulating fashion by Dewey and Tufts in their book *Ethics*. They say, " Because all men want to be happy themselves, it does not follow that each wants all to be so . . . From a mathematical standpoint, the mere fact that the individual knows he wants happiness, and knows that others are like himself, that they too are individuals who want happiness, might commit each individual theoretically to the necessity of regarding the happiness of every other as equally sacred with his own. But the difficulty is that there is no chance, upon the hedonistic psychology of desire, for this rational conviction to get in its work, even if it be intellectually entertained."

This, of course, is quite true. But it does not in any way invalidate our conclusion that social welfare is equal to the sum of individuals' welfare. The people who identify themselves with the State do not, inasmuch as their minds are not a perfect barometer, really maximise the social welfare. But a guarantee against a permanent discrepancy between the actual social welfare brought about and the maximum social welfare possible is provided by the fact that the State, in reality, consists not only of a few such individuals who merely pose themselves as perfect receptacles of the welfare of individuals but of all the persons composing the community or a large number of representatives of the entire community.

The undervaluation by some of the sacrifices of a few, or the overvaluation of the welfare of others, is corrected by similar but opposite valuations by some other people.[5]

If we are right in the foregoing discussion, our conclusion that social good is a mere sum total of the good of individuals points unerringly to the somewhat revolting fact that the State in its proper capacity can undertake activities which help only a few individuals to attain their ends or secure the object of their desire. Very often it has been expressly stated or implied in the course of general discussion that the State in the discharge of its legitimate duties cannot serve individuals in their individual capacity and that whenever it appears so to do a more thorough-going analysis reveals that in the long run others, besides these individuals, are also indirectly served.[6] Now, such a view is clearly not tenable in the light of what we have said regarding

5 Compare here the following passage: "It may be taken as an axiom that the greater the number of people in a State who take trouble to form opinions of their own on public affairs or upon the characters of the men and women who are chosen to conduct them, the more wholesome the complexion of public opinion will be." Right Hon. H. Fisher, *The Common Weal*, p. 21.

6 Rev. Cranin says, "It is no part of the end of the State to help an individual to amass a fortune, or to avoid financial failure." *The Science of Ethics*, p. 474.

The present writer himself held the same view some time ago. In his book, *The Nature, Classifications and Principles of Public Revenue and Expenditure*, he says, "No service which only benefits one or a few individuals, without indirectly benefiting the rest ought to be performed by the State. And no State in its proper capacity ever performs such a service."

But now rather than condemn that act of a State which helps an individual to amass fortune, the present writer would regard it as having a very laudable purpose, noting, however, that it is perhaps always possible for the State to do something more beneficial or praiseworthy.

the nature of social good. The confusion, or rather the difficulty, can be traced to the misinterpretation of the term social good. It cannot be doubted that the desideratum of the State is social good (as a matter of fact whether it is or is not should depend on the precise meaning of the term social good. But the association of ideas on this point is so strong that we couple the words *State* and *Social good* in our thought without any appeal to reasoning). But doubts can very well be expressed on what the true contents of this social good are. And it was the object of this discussion to remove these doubts. Since social good does not mean the common good of all but the sum total of the good of all individuals, it is abundantly clear that the State can rightly and legitimately serve some individuals without serving the rest.

In an ideally perfect State, however, there would be no conflict between the two views regarding the legitimate functions of the State just discussed. Because in such a State the governmental body would be the true representative of the members constituting the State, and all these members willing participants in the organisation of the State. As we have seen in the foregoing pages the representatives of the State who are entrusted with the legislative and executive function are the receptacles of the true feelings of the individuals whom they represent. And in an ideally developed State all the participating members would have attained such a highly sensitive and sympathetic temperament. The happiness of one would then be the happiness of all and the discrepancy between the good of individuals and the common good would be inconceivable or unthinkable.[7]

[7] Sir Wilson is evidently thinking of the imperfect State of the real world when he says, "The General Will about which these philosophers were really most concerned . . . . does not find its most effective expression in laws and acts of State over which 'man of ill will' must generally in the nature of things exercise an influence approximately corresponding to their numbers, but in the voluntary institutions which draw men together on the basis of common sentiments and ideals . . . To stretch the term 'State' so as to cover all these non-official agencies is to debase our linguistic coinage without any compensating gain." *The Province of the State*, p. 228.

We do not mean to say, of course, that such imperfect States should not form the subject of our discussion, but we emphasise the fact that the State which all theoretical discussions of the nature and aim of the State postulate is the ideal State. For it is true only in the case of such a State that the interest of the State and that of its people are perfectly identical. When such a harmony of interests is lacking, as it always is in the real States of the world, the State cannot be regarded as a voluntary organisation. And when it is not voluntary its

There are perhaps a few only among the political theorists who believe that social good or welfare equals the sum total (in our sense) of the welfare of individuals. The writer who comes closest to holding the views that are expressed in this article is perhaps Hobhouse. In his *Metaphysical Theory of the State* we find the most damaging examination of the philosophical theory of Hegel and its modern exponent Bosanquet. There social welfare is conceived in terms of or as resulting from the fulfilment of the Real Will or the General Will. So, how far their notion of social welfare coincides with our notion depends upon what precisely they mean by General Will. A brief examination of the theories of the State centering round this point will, therefore, lead to a better appreciation of the contents of this article.

The Idealist theory, or the Metaphysical theory as it is often called on account of the philosophical basis on which it is made to rest, places the State over and above the individuals. It endows the State with a moral personality possessing a Will of its own. All the functions of the State are supposed to be performed in the fulfilment of this Will. For some it is a *Real* Will while for others it is a *General* Will. Though the two concepts slightly differ, their fundamental characteristics are the same, namely, that the Real or General Will is distinct from the sum of individual wills. And so the social welfare which accrues from the satisfaction of the General Will is not to be regarded as the mere sum total of the welfare of individuals. Now, this Idealist theory of the State, bordering on the realms of metaphysics, has, as we have observed before, been very severely criticised by Hobhouse who shows that there is no General Will that is real in any sense, that is, as being the will that expresses itself in the activities of a State. He says, " In so far as it is will it is not general, and in so far as it is general it is not will."[8] And further, that " The common good is explicitly willed by a minority of the thinking and public-spirited individuals." The theory, therefore, needs no fresh refutation here: but a few observations may, however, be made on certain points taken from the works of the Idealists.

The first question is whether the authority of the State is based on force or will. Bosanquet says, " The means at its

formulation and structure exhibits the principle of might is right. The conception of what is *right* and what is *just* is shaped by the views of those who are in power (or say in majority).

[8] *The Metaphysical Theory of the State*, p. 126.

disposal, qua State, always partakes of the nature of force, though this does not exclude their having other aspects as well. Taxation may have the most reasonable and even the most popular purpose, yet the generality and justice of its incidence and certainty of its productiveness, can only be secured by compulsion."[9] Here it should be noted that the means at the disposal of the State partake of the nature of force because our States to-day have not reached that state of perfection which is postulated in all political theories regarding the aim or the end of the State. Whenever the State is interpreted so as to include in it all the individuals over whom governmental control is exercised, the perfect identity of interests, and perfect understanding between the State and individuals is automatically assumed; so that in such a State there cannot be any necessity for the exercise of force (in the sense in which the term is ordinarily understood). When, however, the need for such a force is recognised, it should be obvious that the State contemplated is the imperfect State of the real world. If consistency in the meaning of words is desired the State should in such cases really include only those individuals who not only see the wisdom in all the acts of the State but willingly submit to all the necessary restrictions and impositions involved therein.[10] It is of interest to note that Green (*Principles of Political Obligations*) unlike many other followers of the Metaphysical theory does not make the authority of the State rest on force but, as we have seen, regards Will as the true basis.

Another point that has occupied a prominent place in the works of the Idealists is connected with their insistence on the superiority of the State over the individuals. The State is a super-personal entity for them—a moral person with its own Will; and its interests dominate over those of the individuals. The individuals are entirely subordinated to the State. They live for it, seek perfect freedom in its rule and find a key to the development of their personality in submission to the acts of the State. Thus, Hobhouse, explaining this theory, notes, "The starting point of this theory, reduced to its lowest terms, is the

9 *The Philosophical Theory of the State.*

10 Evidently Hobhouse is arguing on the same lines when he says "Where an organised society has a good opposed to the summed up gain and loss of its component members, it is either that some of those alleged members are treated merely as instrument external to the body they share or that the good is a false good, cheating even those that partake of it." *The Metaphysical Theory of the State*, foot-note, p. 131.

principle that organised society is something more than the individuals that compose it."

Now, in what sense can the State be regarded as something other than (over and above) the individuals that compose it? If the State has to have an objective personality it can be identified only with the governing body. In an ideally planned organisation the interests of these men would be in perfect harmony with the interests of the people. In other words, they would will exactly what the people did. The State would then be nothing more or less than the individuals composing it.

If, however, the will of the individuals shows a conflict within itself (as it does in the actual conditions of life) the Will of the State is in a sense the resultant of the wills of the individuals, as explained by us in the foregoing pages. In the exercise of its will the State therefore secures not the good of each and all but a net balance of good on the basis of its own estimates. In this interpretation of the State too, there is no indication that it is different to the individuals composing it, except that the individuals present themselves to us in their individual capacity while the State is conceived by us in its collective aspect. Thus, Hobhouse says, "The proposition is true, as we saw, only in this sense: that the life of the whole is more or other than that of the parts as they exist or would exist outside the whole."[11]

If, however, the State is not to have an objective reality but has simply to be conceived as a metaphysical entity, the only sense in which we can say that the State is more than the individuals is that the Will of the State is more or other than the sum of the individual wills. If the General Will is not conceived as the resultant of individual wills as explained above, but is made to represent the hidden (though as they call it, *real*) will in all men—the will which they would not themselves recognise—then certainly the General Will is other than the will of individuals. But so conceived, it has no *reality* of any kind. The exercise of such a general will should do good to no one except by accident, because no individual has any such general will. What good is it then to impute to the State such a General Will?

The General Will must stand for the will of each individual as he actually realises it or knows it and not for some will that he would come to have if he were to undergo a miraculous

11 *The Metaphysical Theory of the State*, p. 126.

transformation raising him to the highest moral plane. We may, therefore, feel ourselves in some degree of agreement with Green when he says, " that impalpable congeries of the hopes and fears of a people, bound together by common interest and sympathy. . . we call the general will." (*Principles of Political Obligation.*) The general will, therefore, cannot be other than what may be regarded as the outcome of the actual will of individuals, nor the happiness of the State different to the happiness of the individuals. We agree with Hobhouse when he says, " there is no happiness at all except that experienced by individual men and women, and there is no common self submerging the soul of men."[12]

Bluntschli does not seem to be definite on this point. At one place he says, " Just as the nation is something more than the sum of persons belonging to it, so the national welfare is not the same as the sum of individual welfare. . . . If the individual welfare of the majority is diminished, that of the State is usually suffering from serious evils. But the lines and directions of the two are not always parallel."[13] On the same page he corrects himself by saying, " In all nations of a manly spirit there are thousands of men who, when the State is in danger or need, will undertake heavy burdens, and will endanger both the peace of their families and their own lives. This spirit of self-sacrifice can only be explained on the supposition that these men prefer the safety and welfare of their State and nation to their own." We would have said here " is in fact explained " instead of " can only be explained." At any rate, Bluntschli is certainly not very confident on this point for, again, discussing the *true end* of the State, he paints such a nebulous picture of the end as to make the reader doubt whether the purpose there indicated does really harmonise with his views already expressed. He maintains, " But all these objections are avoided if we formulate the proper and direct end of the State as the *development of the national*

12 In an interesting passage in his book, *The Common Weal*, Right Hon. Fisher deals with the same point though in a different connection " A State has no eyes to see with or ears to hear with, no stomach requiring to be filled, no human whims or fancies requiring to be gratified. The wealth of a State is and must always consist in the power of individual human beings to obtain satisfaction for their wants. And when we ask whether a State is rich, we should not be content with an affirmative answer unless we are satisfied that its inhabitants are happy " Ch. VIII, p. 161.

13 *The Theory of the State*, p. 290. Gattell makes the same mistake when he says, " Usually the welfare of the State and that of its individuals coincide, but sometimes they diverge somewhat and occasionally they may be altogether opposed." *Introduction to Political Science*, p. 378.

capacities, the *perfecting of the national life*, and, finally, its *completion;* provided, of course, that the process of moral and political development shall not be opposed to the destiny of humanity."

There remains now one more point which is naturally brought into relief by a logical discussion of the problem just tackled. It is, whether the State is an end or a means. The metaphysical cast in which the Idealist theory of the State is moulded naturally emphasises the superiority of the State over the individuals. The State has thus to be regarded as the end, the individuals being conceived as existing for this end. Dr. Bosanquet, for instance, maintains that the happiness of the State is not to be judged by the happiness of the individuals; the happiness of the individual must be judged by the goodness of the State. Those writers who take a more balanced view of the problem seem to find some truth in both the Individualistic Utilitarian and the Idealist theories. Bluntschli may be taken to express the views of many (modern) politicians when he says that " in spite of this it is a logical and political error to maintain that the State exists only for the sake of private individuals and the adiministration has no object but to care for their welfare."[14]

It is natural for a theory that follows the middle course and reconciles two opposing views to command respect from and win the approbation of a large body of thinkers. But in reality the statement that the individuals exist for the State should carry no meaning for us so long as we do not know what the State precisely consists of. However, from what has been discussed in this article it should be abundantly clear that the State exists for the State itself. Everything exists and functions for its own good. In so far as the interests of the State and those of the individuals are prefectly indentical the State may, by implication, be said to exist for the individuals. And by a similar line of reasoning it could be shown that the individuals exist for the State. When the word State stands for an ideal or perfect State the identity of interest between the State and the individuals is perfect—rather the State and the individuals cannot be pictured as separate entities and have to be regarded as two aspects of the same thing. When the State contemplated is not an ideal State but one as we find it in the actual world, this identity of interest is absent and in such cases the interest of the State, if such a phrase has to have a sensible meaning, must signify the interest of the governing body or perhaps of those who elect the members of this body.

[14] *The Theory of the State*, p. 289.

WHERE DO MONEY PROFITS COME FROM?

BY

H. R. SCOTT,

Kodaikanal.

The aggregate of money profits in any period of time may be said to be the excess of total market prices received in that period, over the total costs incurred and disbursed in some previous period.

The wages, salaries, fees, commissions and dividends paid away today for services rendered or value received, are the only source from which future market prices are derived and these prices are relevant not only to consumable wares or usable products but to shares or ventures in commercial, industrial and agricultural, joint stock companies and also to transferable debts served by annual taxation on real estate assessments and/or of incomes derived from these sources.

It may therefore be asserted with some show of reason that money profit is the excess of market prices of today over the costs of yesterday but this conclusion seems absurd as a general economic principle, indeed the converse must be inevitable after allowing for the fact that recipients of payments or transfers made as costs, may not and do not always use these sums either for purposes of consumption or for purposes of further production directly or indirectly but leave them unemployed in the form of reserves for future use. The necessity for reserves connotes the probability of future money losses. If profits can only be the excess of revenue over capital expenditure, losses must be the excess of such disbursements over total prices realised on the cash sale of the product but in view of the existence of earnings and dividends, these profits must be counterbalanced by losses visible and invisible or that the medium in which these payments are expressed has altered in the interval between disbursement of costs and collection of prices, in other words that the general level of prices had risen in the case of profits or fallen in the case of loss sustained.

Profits realized by the depreciation of the money units in which they are expressed are of course fictitious but nevertheless they are sufficient inducement to enterprise as a form of speculation and entail no counterbalancing money losses to other

members of the community but the real loss is sustained by the whole communnity; in the higher prices they are forced to pay for all consumable goods also for shares although the market price of fixed interest securities may fall thus giving a larger income yield. Here arises some sort of compensation and attraction to money savings.

Conversely the appreciation of money or a fall in prices of wares may cause losses and so discourage production thus leading to unemployment and a further shrinkage of markets for consumable things.

Economists write about a contraction of currency but this phenomenon cannot occur since all money in circulation belongs to someone, it cannot be destroyed except under the Gold Standard system but it may be converted into a credit balance in some bank when it carries the option of currency if needed. The business of the world is carried on today by transfers not by payments and the banks are willing to allow approved customers to incur debit entries in their books which rank as assets and their debts perform the function of money until cancelled by credit items so that any restriction imposed upon such debits acts like a contraction of currency and accentuates any fall in prices caused by overproduction or overtrading on the part of merchants whose stock of wares then becomes unsaleable at a money profit and not imperishable.

On the other hand an expansion of currency and consequently of bank debits is possible when Governments or their agents pay out new paper money on the security of their own *ad hoc* securities; this is a method of settling one debt by creating another bearing interest derived from extra taxation. These *ad hoc* securities enjoy the prestige of marketable bonds which are regarded as sufficient reserve for such actual inflation with its inevitable effect in raising all prices of wares then offering for sale. Another method is the acquisition of metal with paper promises to return it to the sellers in the form of coins minted from it, a very profitable transaction to Government when the price paid for the metal is below the market value in goods of the coins thus obtained. A resale of these coins as metal for some foreign currency is also profitable to the State when it is found that its public prefer these paper promises to the coins offered them in exchange therefor.

Such manipulations in the supply of the media of exchange by the banks in order to avoid loss of capital and of the Government to increase their immediate revenue are made at the expense of workers thrown out of employment in the first instance or at

the expense of the general body of consumers in the second instance because prices and values are not allied.

Depreciation in market price of real estate due to lower rentals may be counterbalanced by an appreciation in the selling price of fixed interest or preference dividend bearing investments but the revenue from the latter is unaffected and the owner of real estate suffers from loss of capital and potential income.

It is not capital we need but revenue, these two are interdependent since the market prices of debts are affected by the interest rate they carry to the purchaser until they are converted by repayment from the proceeds of new debts giving smaller returns.

Prices of wares and rates of interest rise and fall together so far as possible but the latter, *i.e.*, rates are fixed for terms of years so the only economic adjustment possible is the yield at market prices of debts which fall with every rise in prices and rise with every fall; meanwhile the original creditor or lender benefits when prices of wares do fall and he suffers privation when they rise so that his income therefrom secures less when spent on daily needs.

How then shall we convert money profits into material benefits and comforts without causing privation and discomfort to our fellows? And how shall we avoid money losses which must be the basic and only source from which money profits are derived by the luckier members of the community either from inheritance or successful speculation?

The law has penalized inheritance by death and succession duties, it has also discouraged speculation by stamp duties and transfer fees so that it recognises the injustice of such sources of individual incomes but it permits the establishment of joint stock banks as money borrowers and lenders without any obligation to meet their liabilities beyond a small deposit with the Reserve Bank of India as a percentage of their current accounts and fixed deposit sums if they wish to be included among the scheduled or member banks who can rely upon temporary financial assistance in case of dire need.

The answer lies in the constitution of our money itself as a temporary measure of current value and a medium of exchange or barter whereby both sides to a bargain may benefit but not as a store of value which may be withheld from use or misused at the caprice of the owner, the lending of money even temporarily can be considered a misuse of it when a better method of finance is possible as I shall show later.

Under our present régime of metal and Government debt backed paper currency aided and supplemented by transfers from one account to another in the books of some trusted bank, the final buyer expects some material advantage from his purchases but the producer and all subsequent distributors of consumable wares expect a money profit for their efforts and services and unless they get it sooner or later they must assuredly cease to function until scarcity intervenes to penalize consumers through higher prices or self-supporting methods such as barter.

It is here that the banks can justify their existence as discount houses not as moneylenders nor should they borrow from the public at interest but act as custodians of surplus monies for the safe custody of which they are entitled to make a small annual charge or percentage.

This money and their subscribed working capital they can use to advantage or profit in the purchase of commercial and industrial debts relating to all enterprise of which they approve as calculated to meet the needs of the public and they can be associated among themselves in order to command the fullest current information and statistics bearing upon such vital economic planning but in competition among themselves so far as their terms of business is concerned.

They can also rediscount or resell these transferable debts to the Central Bank of Issue on fixed terms *ad lib*: or through the channel of another and larger bank, for new currency which can be withdrawn and cancelled as soon as the debt to which it refers has been retired or extended with the concurrence of the original discounter by the negotiation of a second debt in part payment of the first.

For the assistance of merchants these debts should be free of bill stamps and split up into round sums which may be retired or extended to suit their convenience.

In this way our circulating money will be based upon self-liquidating debts and represent the existence of real values created between creditors and debtors who have been instrumental in providing for potential consumption and use to the full extent of actual production and at prices within the capacity of all willing workers to pay.

It will not accumulate in the hands of the few to the detriment of the many nor will any public corporation care to borrow it at interest when they can rely upon the Central Bank to finance their liabilities by means of temporary and self-liquidating acceptances in favour of their creditors on fixed low terms if supported by the endorsement of their own bankers.

Our Government should command sufficient revenue from the unlimited rediscounting operations of the Central Bank of Issue and Withdrawal as their currency agent to enable it to repay all existing debts and to refrain from further borrowings and ultimately from imposing all taxation of its subjects.

Money profits today are largely illusory being due to a depreciation of the units in which they are expressed except in rare instances of quasi-monopoly or outstanding merit of the wares which have found a ready market among the wealthier classes of consumers generally described as a luxury trade, and money losses are often caused by no fault of the producer or trader but by appreciation of the units which he has parted with as costs and the prices he can recover from the public in competition with others in the same field of business or by working with borrowed money which the lender may press him to repay before he has found a market for his wares.

The money I suggest will not be brought into existence until the borrower has found a market of which the lender approves and the loan will be repaid by the purchaser of the wares in question as soon as he can effect a resale the possibility of which is rendered greater by the replacement of these wares thus putting extra money into circulation by the borrower in the form of purchases of raw material, wages and salaries in his search for further money profits.

Thus marketed wares will flow from the producer through the merchants to the final consumer and this new money will flow in the opposite direction from the final consumer to the Central Bank which has rediscounted the trade bill purchased from the original producer.

The wares will increase in value as they pass from hand to hand in the process of making and distribution and the sum of money disbursed by the final buyer will be subject to an equal deduction of profit at every stage until it reaches the original lender in full discharge of the borrowers' debt as paid by the acceptor of the bill of exchange for "value received"; the original lender or discounter will then repay the Central Bank and this new money will be cancelled with the exception of the small percentage fixed by the State as payment for its use, this fixed charge will appear as the difference between the face amount of the bill and the actual sum in new money paid for it.

What this small charge should be depends upon the financial position of the Government concerned, *i.e.*, its state of indebtedness in relation to the taxability of its subjects; in the case of

India the charge might be as high as $3\frac{1}{2}$ per cent per annum because the limit of taxation has already been reached.

The problem of the ratio between the rupee and the £ sterling wrapped as it is with the payment of India's sterling debts and annual obligations in connection with pensions of British officials, can best be dealt with by the Reserve Bank of India as a form of exchange clearing house on the lines suggested by the London Chamber of Commerce whereby money used for the purchase of remittance abroad will be withdrawn from circulation and remittances received from abroad in the form of Council bills will be paid in new currency thus tending to reduce the general level of prices in the remitting country and to increase them in the receiving country, the mechanism involved is the same as that of the Gold Standard without the use of gold as the ultimate form of international transfer of money and final settlement of national debts abroad.

The large purchases of silver by the U.S.A. Government by means of new dollar notes at and above the current market price has led to a wave of speculation in the metal which has caused the Government of Mexico to withdraw its silver coinage and substitute paper notes. It may also be an embarrassment to the Governments of India and Ceylon if a strong demand for rupees arises from holders of paper currency.

There can thén be no question about the reopening the Mints to the free coinage of new rupees at par, *i.e.*, 100 tolas in exchange for 100 new coins since the market price of the metal may exceed one hundred rupees and those in circulation may be hoarded or exported as a form of remittance in the same way as Indian gold is now being exported to Europe.

America's action will probably lead to a rise in dollar prices which may spell prosperity to producers and enable her unemployed to be reabsorbed in industry but such money profits must be largely fictitious as explained above because the general body of consumers in the U.S.A. must pay these higher prices or abstain from all purchases except necessities in the hope that prices may drop again from improved methods of production.

True profits must be based on material satisfactions and real values to be enjoyed by all workers and their dependents but this progress cannot be assured until trade and industrial debts are recognised as the only rational foundation of temporary money which cannot be hoarded or misused in the form of financial credit for speculative purposes at varying rates of interest and revokable at the option of the lender.

MAKING THE PROTECTIVE TARIFF IN INDIA

BY

N. N. DAS, M.A., B.L.

In this article we propose to consider, (1) the procedure that has been followed in granting and withdrawing protection, (2) the function and constitution of the Tariff Board and (3) all other allied questions.

On the 16th February, 1923, the Legislative Assembly by a resolution recommended to the Governor-General in Council to adopt the policy of protection for fostering the development of industries in India. This recommendation of the Assembly was accepted and discriminating protection is now the accepted policy of the Government of India. Clause (d) of the said resolution stated, that " a Tariff Board should be constituted for a period not exceeding one year in the first instance and that the Tariff Board should be purely an investigating and advising body and should consist of not more than 3 members one of which should be Government official but with power subject to the approval of the Government to co-opt other members for particular enquiries." The Government official in the Board is to act as Liaison officer between the Board and the Government. It was contended that the appointment of such an officer was necessary to keep the Board acquainted with the views of the Government as otherwise the Board may make such recommendation which the Government will find difficult to accept. The other two members of the Board are also appointed by the Government. The Government feel that the appointment of the Board is a great responsibility which they cannot delegate even to the Legislature. All the members of the Board are therefore appointed by the Government and the Legislative Assembly or any other body has no voice in the matter. The Board is not a permanent body, as the Government think that a permanent Board may become " an incubus rather than a help."[1]

So far we have seen how the Tariff Board is constituted. We shall now consider the procedure that is followed in granting and withdrawing protection. When an industry asks for protection or complains of unfair competition or asks for the removal

[1] Speech of Sir Charles Innes, member of Commerce in the Legislative Assembly, on 16th February, 1923.

of any tariff inequality, the claim of the industry is first examined by the Government and if they think that a *prima facie* case has been made out then the Tariff Board is asked to enquire and report. An enquiry by the Tariff Board can only be initiated by the Government. The Tariff Board cannot take up any enquiry on its own initiative.[2] It must examine only such cases which are referred to them. The terms of enquiry are settled by the Government without any consultation with the Board and are referred to the Board subsequently. The Board is bound by these terms. They cannot go beyond these terms. In making the enquiry the Board proceeds in its own way and is given complete freedom. The Press reporters and the public are allowed to be present, during the enquiry and evidences are given in public. But sometimes the manufacturers refuse to make known in public the details of the cost of production. Such an attitude of a manufacturer is not unreasonable as there is always the likelihood of the cost figures being used by his rival manufacturers. In such cases the choice lies between receiving the evidence in camera or not receiving it at all, and the practice of the Board has always been in favour of receiving the evidence.[3] The enquiries, being held in public, remove all chances of corruption and inspire confidence in the working of the Board.

The Board has no power to compel the production of evidence. The Board is therefore dependent on the voluntary co-operation of the industry for the supply of informations. Generally such co-operation is not lacking but in their enquiry regarding the grant of protection to the Cotton Textile Industry such co-operation was not forthcoming. The Board sent its questionnaire to 30 cotton mills who were not represented by any association and invited them to reply. But only four of them sent in their replies and even these replies were so incomplete as to be of little value.[4] The Tariff Commission of the U.S.A. and the Tariff Board of Australia who conduct similar enquiries have got powers to compel the production of evidences. Similar powers should be given to the Indian Tariff Board as otherwise the Board may have to come to their findings on insufficient and perhaps incorrect evidence.

The Board visits the factories and workshops of different manufacturers to obtain first-hand knowledge of how the

2 The speech of Sir George Rainy, in the Legislative Assembly, on 6th March, 1929.

3 Report of the Tariff Board on the Steel Industry, 1924, page 186.

4 Report of the Tariff Board on the Cotton Textile Industry, 1932, page VIII.

manufacture is carried on, receives the evidences of all who cared to tender evidence before them and then formulates their own decision. The Board then submit a report to the Government in which they state all that can be said for and against the proposed Tariff changes, their conclusions and recommendations. The Board also recommend the measure of protection needed by the industry. The Government of India examines the report and the report is not published until the Government are in position to publish their considered opinion on the report. Usually either the report is published only a few days before the publication of a resolution, embodying the conclusions of the Government on the report, or the report is published only a few days before the actual introduction of Legislation.[5] This procedure has been criticised. The non-official members of the Legislature maintain that as the report is published only a few days before the actual introduction of Legislation, it gives them very little time to study the report or to secure the opinion of their constituencies. They have to take part in the debates without preparation.[6] On the other hand it is maintained that if the report is published earlier, then the traders coming to know of the proposed Tariff changes may take steps to safeguard their own interests. Thus when a rise in the rate of duty is anticipated, the traders may import large quantities of goods before the new duties come in force. Perhaps the best course would be to publish the report of the Board say a fortnight before the actual introduction of legislation and defer the publication of the considered conclusions of the Government till steps are actually taken to give effect to them. Since the Government is not bound to accept the recommendations of the Board the traders will be unable to anticipate with any reasonable degree of certainty what Tariff changes are likely to be made. Moreover the time at the disposal of the traders will be too short for taking advantage of the anticipated Tariff changes. It will on the other hand enable the public and legislators to carefully study the reports and to follow the debates intelligently.

Protection is never given to an industry in perpetuity. At some future date the protection given to the industry must be withdrawn. Moreover if the industry has been judiciously

5 Speech of Sir Joseph Bhore in the Legislative Assembly on 6th September. 1933, also the reply of Sir Charles Innes to a question given on 25th March, 1924.

6 Speeches of Messrs. W. S. J. Wilson on 25th March, 1924; Jinnah on 10th September, 1925; Sitaramraju and B. Das on 4th September, 1933.

selected then after a lapse of few years, the industry would require less protection than it formerly required. In order to determine whether the protection granted to an industry should be reduced or withdrawn, it is necessary to hold periodical enquiries. The usual procedure that has been followed in this country, is to grant protection to an industry for a term of years. Before the expiry of this term the Tariff Board is asked to make an enquiry. An enquiry is then made by the Tariff Board and on the report of the Board the Government decides whether the protection granted to the industry should be continued, withdrawn or reduced, after that period. This procedure has been followed in the cases of the Steel Industry, the Cotton Textile industry and other industries. But it was not followed in all cases. In the cases of the Heavy Chemical industry and the Match industry this procedure was not followed. In the case of Heavy Chemical Industries, the protective duties were imposed for a period of eighteen months. Before the lapse of this period there was no enquiry by the Tariff Board. The Government of India, however, made certain enquiries and decided that the protection granted to the industry should not be continued. In the case of Match industry, protective duties were imposed but no limit was fixed to the period of protection. We think that the conditions of all industries receiving protection should be periodically reviewed by the Tariff Board. No doubt when there is no such review by the Tariff Board, the Government generally watches the progress of the industry. But a public enquiry by the Tariff Board is always better than departmental enquiries by the Government. In all departmental enquiries the consumers and traders get very little chance to represent their views and the Government have to decide on the evidence of the affected industry. Moreover, a public enquiry by the Board inspires confidence and is therefore more desirable than departmental enquiries. We think that in all cases the procedure that has been followed in the case of Steel industry should be followed, *i.e.*, protection should be granted for a period and before the expiry of the period an enquiry should be made by the Tariff Board to decide whether the protection granted to the industry should be increased, reduced or withdrawn.

We shall now consider the duties and function of the Tariff Board. In India the duties and functions of the Tariff Board have not been laid down by any act. Thus the Board is not a creature of the statute. Therefore the duties and functions of the Tariff Board can only be ascertained from the work that has

already been done by the Board. We find that the Board was called upon

(1) To investigate the claims of particular industries for protection and to make recommendations regarding the grant of protection to such industries.

(2) To enquire into all cases of tariff inequality and to make recommendations.

(3) To review periodically the condition of the industries receiving protection and to recommend the increase or decrease of the measure of protection granted to the industries.

(4) To enquire into cases of unfair competition and to make recommendations.

The Board was never called upon

(1) To consider the duties imposed for revenue purposes though such duties might have protective effect.

(2) To consider the question of Imperial preference.

We have already seen the procedure that is followed in making Tariff changes. We shall now consider how great delay is sometimes caused in following this procedure. If every change in the Tariff schedule, either to increase or decrease the measure of protection granted to an industry or to remove the Tariff inequality or to grant relief against unfair competition is to be proceeded by an enquiry by the Tariff Board and the sanction of the legislature then the delay in making the Tariff change cannot be avoided. Sometimes years lapse before steps are actually taken and an instance of such delay may be cited here. In 1923, the manufacturers of electric wires and cables complained of tariff inequality and asked for the removal of the handicap from which the industry suffered. After two years the Government asked the Tariff Board to hold an enquiry. Owing to the pre-occupation of the Board with other enquiries the Board could not take up the enquiry immediately. The Board however completed the enquiry and submitted its report in 1928. The Government of India took some time to consider the report of the Board and in 1929 the inequality from which the manufacturers suffered was removed. Thus six years elapsed before the industry could get any relief.

With a view to avoid this delay and save time as much as possible the Board suggested that, " The Government should endeavour to secure the acceptance by the legislature of the

principle that relief should be granted wherever Tariff inequality is found to exist with power to take action on the recommendation of the Tariff Board in anticipation of the formal sanction of the legislature."[7] The Government of India however differed from the Board and held that new duties should not be imposed without the consent of the legislature.[8]

Tariff changes without the consent of the legislature have not been recommended only in cases of tariff inequality. The measure of protection required by an industry is the difference between the estimated price at which the foreign product is likely to be sold in India and the fair-selling price of the Indian manufacturer. There are numerous causes which may affect this difference and one of the causes which may increase this difference is the fall of the price of the imported article. With a view to enable the Government to take action without delay when such a fall occurs, the Board in some of its reports, recommended that the Government should be invested with powers to increase the protective duties without any reference to the Tariff Board and the Legislature.[9] The recommendation of the Board was accepted and the Government was invested with necessary powers. We do not however agree with this procedure of raising the protective duty. Mere fall in the price of the imported article does not prove the need of increased protection. The fall in the price might be due to a cause which has benefited the foreign manufacturers and Indian manufacturers alike. Thus a fall in the price of raw materials or the invention of an improved process of manufacture may enable both the foreign and Indian manufacturers to reduce their costs of production. Increase of duty on the ground that there has been a fall in the price of the imported article without proper enquiry is therefore likely to give the industry greater protection than it deserves. Even in other protectionist countries such wide powers are not given to the Executive. In U.S.A. under the Tariff Act of 1922, the President is empowered to raise the import duty, in all cases of unfair competition but has no power to raise the duty if the fall in the price of the imported articles is not due to unfair competition. In all cases of unfair competition we have no objection to the duties being raised without any enquiry by the

7 Report of the Tariff Board on Electric Wires and Cables (1928), para 12.

8 Speech of Sir George Rainy on 6th March, 1929, in the Legislative Assembly.

9 The reports of the Tariff Board *re*: Steel Industry, 1924, and the Cotton Textile Industry, 1932.

Tariff Board or without the sanction of the Legislature. But for reasons already stated we are not in favour of raising the protective duty in such a summary way if the fall in the price of imported article is not due to unfair competition.

Sometimes, delay is caused by the failure of the Government to formulate their decision quickly. Thus in the case of heavy Chemical industry, the Government took two and half years to decide what steps they should take on the report of the Board. It is not improbable that the condition of the industry will change within such a long period and the findings of the Board will not hold good then. We only hope that in future such delays will be avoided.

THE HIGHWAY POLICY OF TODAY AND TOMORROW

BY

B. S. AGARWALA, M.A., Ph.D. (London),

Senior Lecturer in Economics, Agra College, Agra.

The highway policy of construction and maintenance of roads can be looked at from two different points of view: *firstly*, as a typical function of the State, and, *secondly*, as a business enterprise in the provision of transport facilities. The former view takes into account the most general and "imponderable" aspects of well-being, an acceptance of which would place road development in line with such functions as the administration of justice or the defence of a country. As such, all road improvements will have to be undertaken in the general interest of the public on a "collective" basis with but little regard to the interests and obligations of the individual beneficiaries. But regarded from the latter standpoint—as a business proposition roads would be developed, financed, and even controlled with reference to their value in relation to cost. Thus, theoretically speaking, since roads are a facility for the "citizenry" as such, those who use them for profit may, for that reason, be subjected to special burdens and restrictions; but regarded from the former point of view, all traffic, whether profitable or not, will have to be placed on an equal footing as elements in the transportation that roads are built to serve.

It must be admitted that until recently the "collectivist" principle was the recognised basis for road development in most countries; and to a certain extent this principle was also taken advantage of by the railway promoters in the early stages of railway construction. But so far as railways are concerned, they have to construct and maintain their tracks and signal equipment out of their own revenues, and in many cases work as self-supporting concerns; whereas the highways are, more often than not, largely maintained at public expense. The policy of making the motor users pay their own way has not yet found general acceptance, though it is so often implicit in discussions regarding motor transport, of which the improved highway is an integral part. But with the appearance of the mechanically driven vehicles on the roads and their active competition with the railways, the "commercial" principle is now gradually being

recognised as deserving at least an equal place in providing "fair" conditions of competition. The extent to which one may defer in actual practice to the one or the other of these two principles is, therefore, a matter of grave importance.

It is well to bear in mind that the public highway has not always maintained a consistent character. Even in England and America, whether judged from the physical, functional, or administrative point of view, the institution of the highway appears to have changed considerably in the course of its history. At any rate, its origin seems to have been non-commercial. The mediæval institution of the King's Highway—a mere right of passage, not a physical roadway—served mostly the business of the king and the feudal chiefs, and incidentally provided for the movement of the pilgrims and the people. The traffic being mainly of the pedestrian and ridden-horse type, the maintenance of roads was a simple affair. All that was needed was the removal of d obstacles of the grosser sort. But with the rise of modern commerce in the sixteenth century, and particularly with the advent of the wheeled vehicles, Parliament began to organise road administration. Customary service was replaced by Statute Labour, and the design of the vehicles was restricted to preserve the natural roadways. During the later part of the seventeenth century, there came into being the Turnpike trusts, which were financed through tolls, and which ultimately controlled about 22,000 miles of main roads. The first English Trust came into being in 1683, and the last of them ceased in 1895. The Turnpike system, while usually regarded as but a temporary supplement of parochial control, was in essence a radical departure in principle from the old type of administration. After the dissolution of the Turnpikes came the Country Councils and the Road Boards as the administrative units, and finally the latter were merged in the Ministry of Transport by the Act of 1919.

With the beginning of the twentieth century, there came about a revolution in road transport in a period of unprecedented brevity—a revolution so complete that the motor vehicles swarmed over the highways and transformed their use altogether. Roads were now needed that differed radically from the nineteenth century type in regard to surface, width, alignment, gradient, durability, and above all in cost. Local units of Government proved inadequate financially, and were helpless in improving the technique of road construction. But a close analogue of the "toll" soon appeared in the form of vehicle registration and

fuel taxes. These are now sufficient to provide a major portion of the funds needed for current construction and repair. Explainable at first as a temporary expedient to meet the heavy expenditure on the roads at a time when the country's resources were much depleted, these special taxes have now come to be rationalised as proper payments for road use by those who consume road services. The great volume of traffic and particularly the long-distance movement of passengers and goods, came rapidly to endow highways with a transportation significance of a kind that soon outweighed their more general social implications.

Such has been the gradual change from the " collective " to the " commercial " view of the highways, yet the goal is by no means reached either in theory or in prevailing practice. Those interested in road transport still find it useful to compare the road taxes paid by the motor users with the general taxes paid by other industries,[1] and to conclude therefrom that their contributions are relatively far too high. On the other hand, the railway interests freely allege that their rivals, the road users, obtain a subsidy from the public sources to the fullest extent of the cost of the highways. Both these are extreme views on the subject; and in adopting these attitudes both interests fail to realise that the sums paid annually in registration and fuel taxes find their justification in the private use of the publicly owned highways as an instrument of transport. Great stress has been paid from time to time on the intangible general benefits of good roads: nor are these benefits even now ignored when the distribution of road costs is discussed. As an illustration may be mentioned the following classification, which has so frequently been urged as a basis for assigning road expenditure among

[1] Thus, for example, Mr. Shrapnell-Smith argued before the Royal Commission that the increases for highways falling upon the ratepayers were similar to those falling upon them in respect of other public services, *e.g.*, education (Evidence Vol. I, M. 16/11 f.). The factual truth of the statement cannot be denied; the proportionate increased between the two heads of expenditure is about the same.

Yet, one would like to know whether the importance of highway construction is as great and as unavoidably necessary as that of imparting national education. Surely a nation may put up with bad roads, but not with illiteracy : education is the all important agency to uplift humanity: not so are the roads. This being so, it is indeed poor reasoning to compare the proportionate increase between the two heads.

different uses. Such expenditure, it is stated on diverse authority, should be allocated with reference to:—

(a) *Benefits to society in general*: *e.g.*, influence on education, recreation, health, fire prevention, police protection, the national defence, the postal service, living and distribution costs, etc.,

(b) *Benefits to definite groups*: *e.g.*, landowners, agriculturists, manufacturers, railway companies, mines, forestry and canal companies, etc.,

(c) *Benefits to the public and property served directly*: *viz.*, the passengers and goods carried, and

(d) *Benefits to the road users*: *e.g.*, the horsedrawn and mechanically propelled vehicles, the pedestrians, and other users of the road services.

An acceptance of he theory of multiple benefits accruing from the roads would, however, soon lead one to a position of inconsistency and paradox; for, the very advocates who would like to spread road costs with reference to these benefits have endorsed the opinion that traffic should be the main criterion for making road investments—" that the return to the public in the form of economic transportation is the sole measure of the justification for the degree of improvement." Thus, if traffic needs determine the outlay on roads, there should be no injustice or hardship if the entire burden of road costs were placed on the traffic; but it benefits other than those accruing to traffic have an independent existence, and which will, therefore, have to be accounted for in apportioning road costs, it is plain that they should be recognised as such in estimating the degree of improvement. This argument of the multiple benefits, consequently, needs a close analysis, in view of the effect it has had on the " commercial " concept of road administration in its present stages of evolution.

In a sense road services can be placed in the same group in which the various public functions, such as the provision of parks, playgrounds, hospitals, etc., are included and it might be stated that good roads are a means of recreation and health and provide for the common welfare of the public. Likewise it may be pointed out that good roads have an educational value, not merely because travel is beneficial, but also because the " consolidation-school movement," which has revolutionised rural education, requires them today. Again, from the social point of view, the

distribution of population is very uneven. The rural areas suffer from isolation, and the urban areas from congestion; both these evils are materially relieved by the improvement of roads. Nor can the military value of good roads be questioned. These are some of the indirect benefits that result from good roads,[2] a list of which could be extended to any extent.

But the mere fact that the highway function can be interpreted in terms of public utility, is no positive evidence to support the "collective" theory; for if reasons exist to prefer the "commercial" policy in financing highways, the presence of these general benefits need not affect the issue. Such social advantages also accrue from other productive services. For example, although valuable services of health and recreation are supplied at public cost to the poor, yet much of the medical service is purchased by the public on a commercial basis. Similarly, entertainments and recreations of a diverse kind are provided for the public mostly on business lines. There are theatres, picture houses, operas,[3] dance halls, carnivals, varieties, etc., most of these are worked on commercial lines, each charging

[2] The remarks of Mr Thomas H Macdonald, Chief of the United States Bureau of Public Roads, are interesting reading:

"The results of the utilisation of the motor vehicle are widely apparent. A rapid change is taking place in the whole structure of the nation, economic and social There is, for example, the remarkable improvement in the social possibilities of the agricultural population—the direct access to cultural influences of the cities. There is the great improvement in rural educational facilities, the results of the consolidation of many small schools into a few large, centralised institutions more adequately equipped and staffed, made possible alone by the improvement of the roads and the use of motor buses to convey children to and from schools.

"These are the benefits experienced by those who dwell in cities, the tendency toward decentralisation of city industry and outspreading of city homes into beautiful suburban areas at a greater distance from congested centres. Especially, there is the great world of out-of-doors and the new experiences of touring, camping, outdoor games, and the life in the open which have so wonderfully changed the whole aspect of city living.

"Advantages such as these, which have contributed so beautifully to the health, happiness and the cultural development of the entire population, urban and rural, are rated now by most of our people as transcending even the substantially pecuniary rewards of improved highway facilities."—(Highway Construction, Administration and Finance. By E. W. James, pp. XII and XIII.)

[3] Operas are frequently subsidised by the State. There is one in England and many in Germany, which have received handsome subsidies from the public.

the direct user the whole of the costs involved, irrespective of any incidental social benefits that accrue to the public from their presence. It would indeed be a very difficult task for the proponent of the " collectivist " theory to prove that the highways contribute more towards health than do the industries providing food, clothes, shelter, and the like. It is true that in some cases the " collectivist " principle is recognised in order to maintain a reasonable standard of minimum efficiency in the interests of the poor; but the provision of such facilities whose enjoyment requires the possession and use of a motor car on a collective basis would be unwise and socially undesirable. For, obviously, such a collective provision of all sorts of facilities would broaden the list so much that almost all consumption would fall within it, and all of them would therefore have to be supplied on a " communistic " basis. It is interesting to note that such an experiment for the provision of human wants on " communistic " lines is being tried in Russia at the present day, the results of which are not definitely known; nor can any forecast be made about the success or otherwise of the experiment, which is in the main still in its infancy, and consequently, floundering blunders are often made in seeing the policy through.

Witnesses before the Royal Commission on Transport did not fail to look upon road expenditure as a national affair. Sir Arthur Stanley thought that not only did the community benefit economically far more than the users of motor vehicles, but that the latter were taxed excessively, which alleged injustice, he urged, be reduced forthwith and abolished in course of time " having due regard to the fact that it is a tax upon the plant, tools, and raw materials of the industry."[4] Mr. Robert J. Smith stated that the cost of highways, both as regards construction and maintenance, should be a national charge, in view of the fact that they were a " public heritage " belonging to the public, and hence, considered it as unsound to place the burden of upkeep, or any stated portion thereof, on any particular body of users. In his opinion, the method and incidence of motor taxation needed revision; and the same, if it were to be a road tax, should be based on " use and road wear," weight, power and mileage being taken into due consideration.[5] Another witness, Mr. Stephen Cooke, stated that the present system of financing road construction, improvement and maintenance from the Road Fund and

[4] Royal Commission on Transport, Evidence Vol. I, M. 9/6, p. 196.

[5] *Ibid.*, Vol. I, M. 11/4-5, p. 224.

from the rates was " wrong in principle and unfair in incidence," and that the motor owner paid more by way of special taxation than he should in comparison with the damage the vehicle does to the road surface.[6] Such taxation, he stated, should be levied on a basis which would vary each person's contribution in proportion to the amount of road use.[7] Mr. Shrapnell-Smith laboured at great length the point that the highways had many more uses than merely serving as the carriageway for vehicular traffic, of which motor traffic was only a section of a class. Rate-payers, he said, obtained the advantage and benefit on the credit side. Thus, while agreeing that most of the included heads of expenditure are inseparable from, or consequential upon, highway construction and use, he claimed that all of them could not fairly concern exclusively the carriageway or motor traffic.[8] Again, Mr. J. Howley arguing on very much the same lines as Mr. Shrapnell-Smith's concluded that the burden of upkeep should in equity fall on many shoulders, there being no justification for the contention that the entire costs of upkeep be paid by the road users.[9] Mr. John Cliff, a witness on behalf of the Transport and General Workers' Union, stated that the Union did not accept the view that the entire road costs should be a charge thrown wholly upon the revenue derived from taxes and licence duties imposed upon road transport, and that the roads were a general social utility, and as such, road costs, a national charge.[10] Also, Sir George Beharrel dissented most strongly from any suggestion that the development of motor transport has been due to any unfair conditions enjoyed by motor vehicles, either by escaping a portion of their legitimate contribution towards road costs, or by receiving any contributions from the railways in the nature of subsidy towards road costs; and, further pointed out that apart from motor traffic, roads were needed for strategic purposes, as feeders to rail and water transport, and as a general means of transit for social and commercial purposes. In view of these considerations, he suggested that motor transport was paying more than its fair share.[11]

6 Royal Commission on Transfort, Evidence Vol. I, M. 10/31-2, pp. 203-04

7 *Ibid.*, Vol. I, M. 10/34, p. 204.

8 *Ibid.*, Vol. I, M. 16/10-11.

9 *Ibid.*, Evidence, Vol. I. M. 17/6.

10 *Ibid.*, Vol. II, M. 24/12.

11 *Ibid.*, Vol. II, M. 22/9-12.

The views expressed above, while inordinately stressing the "socialistic" uses of the roads for which in their opinion substantial allowances must be made, nevertheless recognise, though in a lukewarm manner, the fact that the motor traffic has also to bear its proper share of the road costs in accordance with certain principles that would determine the nature and extent of the road use. In doing so, it is persistently pointed out by the interested parties that the motor traffic was, in their opinion, bearing more than its fair share.

Unfortunately, the enthusiasts in the cause of highways seem to have wrongly interpreted the prevailing practice in regard to taxation of motor vehicles. Their claims for the "collective" social benefits that follow incidentally, can hardly be urged as a satisfactory plea for subsidisation from public funds. "The length to which even reputable authorities have gone in their collectivist rationalization of road improvement is shown best in the inclusion, among general social benefits, of reduced living and distribution costs, and in the separate recognition, beyond the direct service to traffic, of a contribution to special groups of original producers, such as farmers, manufacturers, and rail carriers."[12] But general considerations such as these can hardly outweigh the advantages of administering roads as transport facilities.

From the theoretical standpoint, it would be necessary to take into account not only the collateral benefits, but also any disutilities that may arise from the encouragement of the transport industry. Thus, while taking into consideration the social benefits from the presence of highways on the credit side, it would be pertinent to recognise the improved highways as sharing responsibility for an appalling number of casualties[13] that happen every year, and for the nerve-breaking acceleration of activity of life, on the debit side. But how to evaluate these benefits and disutilities in terms of the "measuring-rod of money," is the problem. In the case of most industries the direct beneficiaries are the persons that are taken into consideration, while allocating the costs of production. The same principle should hold true in the case of transport industry. In the absence of general reform, no exception need be made in this case,

12 Quarterly Journal of Economics, May 1932, p. 428.

13 During 1931 the casualties on the British roads totalled over 6,000. In the United States, during the 18 months ended December 1931, more persons were killed in road accidents than were killed in the 18 months of the War.

particularly when the collateral benefits of motor roads are not exceptional, and some of them may be actually nullified by the incidental disservices arising from the road improvements in general.

Cases can, however, be imagined of a definite sort where highway expenditure may be justified on social grounds exclusively, and which may not be warranted by traffic requirements. An out-of-the-way road may be desirable for military reasons; a local road may be needed to accommodate specific individuals or groups, say a school; special road improvements be made to relieve isolation in certain areas—all these are instances where expenditure may not be justified by traffic needs, and yet be socially desirable. Again, some expenditure may be incurred on footpaths and even on the beautification of highways, which may not be indicated by traffic requirements, but which is made with a view to safeguard life and limb[14] and to satisfy the æsthetic taste. These and other similar objects may call for separate public appropriations. But from the "commercial" point of view items such as these, excepting the safety provisions, are of secondary importance, and are positively over-shadowed by the fundamental requirements of traffic. In adopting the "commercial" attitude, therefore, what is needed is an intelligent application of the principle in administering highways, having due regard for occasional limitations such as these.

But apart from these social benefits of roads, it may be that their improvement be withheld and their cost unfairly spread, if traffic alone were taken into account. Road development may increase the value of real estate, or bring new trade for the people; and it may be contended that these factors, on economic grounds, should be considered in allocating road costs, and should weigh heavily in determining highway administration policy. In regard to land values it may be stated that the

14 The safeguarding of life and limb is up to a certain point a "commercial" concept. The vast sums that are annually paid by the motor users in insurance against third party risks may be said to be a rough measure of the price that has to be paid in respect of this item. If, however, some means can be devised whereby these costs could be cut down by, say one-third of the insurance bill, for example, by building an underground railway to take away a part of the traffic from congested streets or heavily trafficked areas, thereby reducing not only the third party risks materially but also relieving the road authorities of the extra-heavy public expense necessitated by the widening of such streets and the heavy compensations that would have to be paid to the site-owners thereof,—such a policy would be adopted. But if the railway authorities were to claim some aid in respect of this service, they would be denied it, because of their being commercially managed units. The irony of the situation is apparent.

influence of improved roads has been probably unduly stressed; that outstanding cases of increase in value have given rise to statements of improbable validity; and that if some values have appreciated, others have gone down. It is perhaps not fully realised that road improvement may shift the demand for land, and not necessarily increase it; that these advantages may disappear when good roads become general; and that savings in the costs of production may, under perfect competitive conditions, go wholly to the consumers in the form of lower prices. It would be wrong to presume that the gain of the landowners—the "unearned" increment in land values—is something in excess of the services of traffic; for in reality, the greater accessibility, which confers land values, is realised only through the use of the roads. But whether such rise in values should be taxed for general public purposes—not for meeting the road costs particularly—is, an entirely different aspect of the problem.

Likewise, it is often contended that roads should be improved because they bring business to a community, specially the tourists. In fact, in certain places, great highway improvements have been made wholly with a view to attract and hold the tourists. But this is no new benefit beyond that to traffic in respect of which roads have been improved; for as Prof. Shorey Peterson points out, this expenditure does not mean the creation of a "new industry whereby the national dividend is correspondingly enhanced, but a transfer geographically of demand for the services of grocery stores, hotels, and filling stations, together with some new land utilisation."[15] "Accordingly," concludes Prof. Peterson, "if local jurisdictions care to assess the special beneficiaries of tourist patronage to finance road improvement beyond what the volume of traffic may warrant, such a policy would seem fully as meritorious as the extensive advertising of the community; but that a state would be thus influenced in its road policy is much less certain."[16]

While considering highways as a business proposition, three major types of users may conveniently be distinguished: (1) the users of self-propelled and other wheeled vehicles; (2) the way-leave users of the roads, *e.g.*, the telephone, the telegraph, water, gas and electric supply companies, etc.; and (3) the other users consuming what are commonly known as the "community uses" of the roads. Of these three, the first group of users is the most important from the point of view of financing the highways; for

[15] and [16] Quarterly Journal of Economics, May 1932, p. 432.

the motor and other wheeled vehicles not only occupy the major portion of the roads at all hours, having driven the pedestrians to the footpaths besides endangering their safety, but are also responsible for the greatest amount of wear and tear of the roads, and a constant source of an ever-increasing constructional expenditure resulting from a demand for better and better roads to accommodate the heavier types of vehicles. The largest share of the road costs will have to be met accordingly by this class of users, whereas the two other classes of users will also have to shoulder their respective burdens according to a just appraisal of the situation. It is true that the wayleave users cause some annoyance and hindrance to the wheeled traffic on the highways, and block or produce congestion on them while carrying on their operations. For this reason, and for the fact that the wayleave users find it convenient to follow the roads closely in their business undertakings, they may rightly be made to share that portion of the road costs which is occasioned by their operations, plus something by way of allowance for the hindrance caused to the traffic. What this " something " would really amount to, is impossible to judge; but it would not be anything very much to make any material difference in their contributions. Similarly, an allowance for the " community uses " must be made, for even in the absence of wheeled traffic roads would be needed for the ordinary uses of the community, though not of the same high specifications as are being demanded in modern times. The share falling upon the community should, therefore, not exceed the amount that was needed for their construction and maintenance in pre-motor era. Account having been taken of the " way-leave " and the " community " uses of the highways, the balance of the highway costs of construction and maintenance should legitimately be borne by the motor and other wheeled users of the roads.

Today motor transport has come to occupy such an important place, both in conveying passengers and goods, and in contributing to consumers' welfare in general, that it would be a false economy to withhold from it large sums of money that may be better employed in this than in other alternative industries. Perhaps many would suggest that the present policy of road financing is a niggardly one, and that the present expenditure may advantageously be doubled or even trebled. This would mean the use of a good bit of nations's savings for building roads alone. Hence the question arises whether the adoption of a " commercial " policy in financing highways, whereby the users thereof may be made to pay for their construction and

maintenance, would serve as an efficient check in controlling investment so that a proper balance between utility and cost may be maintained? And would such a policy eliminate the possibility of either seriously inadequate expenditure, on the one hand, and extravagant expenditure, on the other, even in the same country, in the construction of highways?

By many proponents of the " commercial " theory, it seems to have been assumed that, if roads are financed by those who use them, and if the proceeds so realised were applied to roads, the desired result would automatically follow. Such an assumption would be unwarranted, for any monopoly of a necessity may readily enable the owners of it to realise from the consumers a gross return much in excess of what may be needed for the conduct of the enterprise. That there is a certain amount of monopoly element present in the transport industry, the influence of which is fast breaking down under competition from rival sources, none can deny. Thus though the " commercial " concept of the highways may fail to serve as an automatic check in controlling expenditure, its need is felt for another reason. The main advantage of the " commercial " theory lies in its serving as the " measuring-rod " of money, whereby the calculations of gains and cost can be made in specific cases with reference to the traffic, the wayleave, and the community uses of the highways, irrespective of any popular estimates of the collective welfare of the people involving some of the " imponderable " aspects of well-being—a fruitless attempt to measure the " immeasurable." The need for such a policy is obvious, and a beginning has already been made in developing a suitable technique. Numerous experiments are in progress to determine the effects of road surfaces upon the operating costs of vehicles and upon the wear and tear of tyres, as also to ascertain the volume of traffic that would justify such an expense as a particular type of highway may involve. Similarly, the effects of various types of vehicles, of different designs and makes, on road costs are closely being studied with a view to minimise road expenditure, on the one hand, and to enable the vehicles to render most efficient service at the cheapest price, on the other. Traffic censuses have been taken in order to determine the density of traffic on various roads and to classify them. The technique of measuring traffic demands for road improvements is, it is true, still crude and often inadequate and even faulty; but it is on lines such as these that the " commercial " view of the highway policy must find expression in its supreme task of guiding road investments in the future.

But, if the method of guiding road improvements be as herein outlined, does it really matter who provide the funds—the road users themselves, or the taxpayers in general? Three reasons may be suggested why road users, and in the main the traffic users, be made to pay for the construction and maintenance of the highways. Having made proper allowances for the way-leave and the community uses of the roads, there seems to be little justification for conferring the special privilege of using the highways as a place of business on specific individuals—the motor and other wheeled vehicle owners, including horse traffic, at public cost. And would it not be fair, if, under modern competitive conditions, both the road hauliers and the railways were made to bear like elements in the cost of providing transport facilities to the public? This consideration would apply to all commercial and non-commercial vehicles alike, since all are in competition with the railways at the present day, either directly or indirectly. Again, the modern registration fees and the petrol tax have been levied as an alternative means of payment in lieu of the old "tolls," which were considered in payment for the road use, as a proper charge.

Usually the administration and financing of highways has been a state enterprise.[17] As such, no system of levying taxes and tolls would entitle the operators of motor and other wheeled vehicles to become the owners thereof, not even if the entire costs of road construction were paid out of such taxes. Being in possession of these highways, the duty of providing capital for investment in road industry naturally devolves upon the state. Under these circumstances, an adequate sum for annual use of the roads, covering not only the costs of upkeep and replacements, but also interest on the investment, may reasonably be demanded from the motor road users. Most of the levies now paid by the operators of the commercial motor vehicles may, therefore, be rightly regarded as "rental" payments in respect of the road use made by them, and not as "taxes" in the strict sense of the term.[18] The contributions made by the motorists

17 This remark, strictly speaking, applies to the King's Highways in Great Britain and to most of the main highways in the United States and other countries. There was actually a proposal to build a tell motor road in great Britain as a joint-stock enterprise. Such private roads would not be State enterprises.

18 A "tax" is defined in Webster's dictionary as a "burden, usually pecuniary laid upon persons or property for public purposes," whereas rent is defined legally as "the return made by the occupant of land .... to the owner for the use thereof."

cannot be regarded as a "burden" imposed upon them by the State: they are, properly speaking, a "return" or payment for the use of the State-owned and State-built highway system. The only burden that may rightly be called a "tax" may be exemplified by the "property taxes," which the operators of motor vehicles have to pay as owners of property in certain sections of the United States. But the sums they generally pay in the form of petrol taxes and licence duties may be considered as "rental" payments for the use of the highways as a place of business. That they are not burdens in the strict sense of the term, is proved by the fact that they can be wholly avoided by the simple device of refusing to operate their vehicles on the highways. It is usually agreed to treat licence duties as "rental" payments; but the fact is not so clear in the case of petrol taxes. The former are charges falling upon the road transport industry alone, whereas the latter taxes are shared by other industries as well. Even if the tax on petrol were regarded as a proper form of "tax," there is no special injustice or hardship done to the motorists. All those industries that use petrol as fuel must bear the "tax" in order to provide the general revenues for the conduct of the multifarious activities of the State. Petrol tax as such cannot be considered as something penalising the motor industry in particular. The State has decided to raise a part of its revenue from the petrol taxes, and the motorist must pay his share.

In determining the annual charges that the operators of motor vehicles should pay, the chief difficulty arises in regard to the interest figure, not only because the rate may be undecided, but because the capitalised value of the highways may not be accurately known. Again, there is a big difference of opinion as to whether present traffic should rightly be charged with investments in land and improvements before the motor came on the roads. Another point of importance round which much controversy has centred of late is whether the State would be justified in diverting to certain non-highway uses, a portion of the receipts from registration and petrol taxes. Two good reasons may be given why such an action would not be improper. The first reason is that these taxes are, at any rate to some extent, similar to those paid by the railways in large sums to the State; and it may be contended, and rightly so, that motor transport may be called upon to contribute in a similar manner to finance State activities other than those of providing highways. The second one is that a major portion of the receipts from registration and taxation of motor vehicles, which is usually regarded as

a payment for the road use, might be considered to be of the nature of interest on a public investment. The State has so many activities to look after, and it is obliged in no sense to reinvest in one of its undertakings all the moneys realised therefrom. It has to decide the matter from a social standpoint, so as to attain maximum welfare of all its enterprises, of which highway is one. The State has every right to apply a portion of highway income to reduce the burden upon other revenue sources. Such a reasoning, however, rests upon the conception of highways as a "publicly-provided commercial instrument."

The problem of road taxation is becoming serious from another point of view. The cost of upkeep and repair of highways owing to the commercial operation of motor vehicles, particularly of the heaviest types, is increasing by leaps and bounds in all countries. Hence, comes the opposite query of Dr. Duncan: "Can we not say definitely and without qualification that additional expenditure for the improvement and maintenance of the highways, over and above what is required for the private passenger automobile, should be borne wholly and absolutely by commercial operations?"[19] The principle is clear; its application is certainly difficult. Extravagant expenditures have to be borne by the highway authorities to provide a roadbed for those heavier vehicles, which only constitute about 1·5 to 2 per cent of the total number of vehicles, and bridges too are being built to stand the 20-ton loads of six-wheeled commercial vehicles. All this is a sheer waste of expenditure, a wholly uneconomic proposition, and at public cost. Roads are being built to such high specifications, which would not be needed for the heaviest types of private cars, not even for reasonably sized public goods vehicles. The subsidy which the public has so liberally given to the commercially operated goods and passenger vehicles has already run into thousands of millions of funds. The question is: whether the public feel economically and socially justified in subsidising the heavier traffic by providing necessary funds to build super-excellent roads with a view to accommodate a minor percentage of vehicles, which besides costing more to the public do immense damage to the roads wholly out of proportion to the contributions they make towards road costs by way of duties and taxes?

Thus while there is definite evidence available of the increased expenditure on roads to accommodate the growing traffic, the burden of which is fast increasing, the relative burden

19 Railway Age, August 13, 1932.

which highway operation should bear still remains unsettled. Anomalies exist where there should be none, at any rate, not to the extent to which they prevail at present. There are the costs—the extra costs—which the heavier types of vehicles should bear, over and above a fair share of the other costs that might fall to their lot. To this extent, the allocation of £1½ million among the heavier vehicles by the Salter Conference, is an attempt in the right direction.

Such are the various implications involved in accepting the "commercial" concept. While the merits of such an approach may be many, some doubt naturally remains whether the conception and treatment of the roads in the "traditional political manner" can be wholly eradicated, or should be. "In a period characterised by an ever-widening collectivism, it may be a backward step to reduce road administration to a narrowly conceived commercial basis. And still more serious questions arise as to whether highway matters are capable of effective administration to private criteria, in view of the nature of politics and the character of democratic government.[20] Doubts of this character are expressed by Prof. Shorey Peterson. But they need present no serious obstacles in adopting the "commercial" viewpoint, for as he himself admits, the scope of State activities is fast expanding to include new ones that were hitherto worked by private enterprise, or which, at any rate, fell under the private régime till now. It has, therefore, became all the more necessary to recognise all those standards of private practice that are likely to promote efficiency and economy in working a business as a State enterprise. The requirements of social economy do not differ essentially from private practice; the only change brought about is the adoption of public administration and control in the place of private one. Such a change need not present any difficulty in handling business as a "commercial" enterprise by public authorities. The standards of guidance that were used for working a private enterprise would equally be serviceable in working the industry commercially. These standards of guidance become all the more necessary while working an industry publicly; and, since the "commercial" concept of highways furnishes some rough standards of measuring tangible uses of the roads, it should, for this reason alone, if not for any other, be adopted as the main criterion in the administration and control of the highways instead of dwelling upon the intangible and "imponderable"

20 Quarterly Journal of Economics, May 1932, p. 443.

aspects of social well-being that are made so much of by the road enthusiasts. Thus in agreement with Prof. Shorey Peterson, it may be concluded that:

> "With the beginning already made in the highway field, a still more extensive application of the commercial conception of road administration will furnish useful practice and experience."[21]

Looked at from the "commercial" point of view, the highway policy would mainly resolve itself into one of taxation of the road users. The financing of a national highway system would thus become merely a matter of judicious taxation of motor vehicles. In this connection the remarks of Mr. E. W. James, Chief of the Division of Design of the United States Bureau of Public Roads, are illuminating. While admitting the motor vehicles as the "determining consideration" in discussing a general highway programme and the details of road design, and recognising them as the principal, though not the only source of public income to finance highways, he writes:

> "The real problem in highway taxation is not so much to discover adequate sources of revenue, but rather to establish the proportion which each of these sources should properly and equitably contribute toward the total highway budget . . . . The problem is an involved one, many details are indeterminate . . . ., but the general trend of administrative and legislative action in a large number of cases serves to indicate some grouping of sources of taxation that appears reasonable, just, financially sound, and usually successful beyond anticipation."[22]

Assuming the possibility of a "responsive and flexible" policy of road building, Mr. James further admits the practicability of taxation as the fundamental basis of realising revenues for the construction and maintenance of highways in the following words:

> "We find that revenues for road building are obtained from several sources, the commonest of which are direct real property taxation, the direct taxes on the

21 Quarterly Journal of Economics, May 1932, p. 443.

22 E. W. James: Highway Construction, Administration and Finance, pp. 101—03.

motor vehicle and on the fuel used. We shall accept as generally established that these are the commonest, the most productive, and have become, through a certain experience, the most acceptable under an admittedly rapid and extensive highway development, like that in the United States.

"Errors have been made in the method of application and in the details of distributing the tax. Improper proportions of the cost of road building have been assigned to one or other of these commonest sources of revenue, but the taxes so levied have been generally adequate, easily and economically collected, difficult to avoid, flexible in application, and acceptable to the general motor operating public."[23]

Thus while appreciating the possibility of making errors of judgment in apportioning these taxes, one may, in general, agree with Mr. James in recognising taxation as the most suitable and practicable method of raising revenues under the present circumstances. What is really needed is the principle, not only theoretically sound but practicable in its application; and this is discovered to be "taxation" on a "commercial" basis behind the drift of current practice as shown in financing large business undertakings.

Mr. James makes out another point of importance. While admitting the feasibility of raising a certain amount of revenue from the real property taxes for road purposes, he maintains that under modern conditions such taxation would be of little avail in providing adequate revenues, besides entailing extreme and perhaps unequal hardship and burden upon different local areas taxed, particularly when the old transportation requirements have given place to a vastly increased vehicular traffic far in excess of local demands. He sums up the situation in these notable words:

"It is clear, therefore, that there must be some other source for highway income than real property under development unless we impose undue burden on that property. Better highway facilities than those required by the local needs are demanded. It is equally obvious that this demand flows wholly from the so-called foreign traffic, with its added facilities

23 E. W. James: Highway Construction, Administration and Finance, pp. 104—06.

for business, possibilities of saving in costs, and source of pleasure and convenience. This traffic should be made to carry the charges incident to its operation.

"On this basis we may turn to motor vehicle revenues as a logical, probably adequate, source for a highway fund to provide the cost of construction to meet the additional demands arising from foreign traffic.

"If properly levied and used there is no tax that bears any more direct relation between source and object than the motor license and the gasoline (petrol) tax. The increase in rates on motor vehicles and the rapid introduction of the gasoline tax indicates a wide acceptance of this method of raising revenue."[24]

No better evidence can be given in support of the "commercial" concept of highway taxation than the views of Mr. James expressed above. His ideas furnish a basis for making highways a self-supporting proposition by adopting a "commercial" policy of taxation, rather than go on pondering over the "imponderable" social benefits accruing from the roads, thereby making an attempt to measure the "immeasurable." The feasibility and adequacy of such a proposition is unquestionable. But while making a practical application of the principle, special cases such as those mentioned a while ago, will have to be dealt with on their merits separately. What is needed is an intelligent application of the principle, having due regard to its occasional limitations in actual life. For all practical purposes, therefore, the policy of "commercial" taxation may be accepted as a working hypothesis to serve as a useful guide in allocating highway expenditure among the various classes of users.

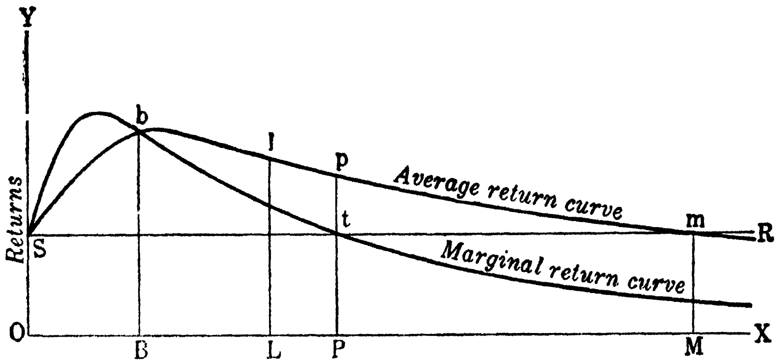
[24] E. W. James: Highway Construction, Administration and Finance, p. 109.

POPULATION

BY

SHANKAR LAL AGARWAL, M.A., B.SC.,

Lecturer, Colvin College, Lucknow.



Labour

X=Population

Fig. 1

In the above diagram, the average return curve has been derived from the marginal return curve. b, at which these two curves cut each other is the highest point on the average return curve. The straight line SR runs parallel to the X-axis and OS is the minimum amount of necessaries without which life would be impossible. SR cuts the marginal return curve at the point t and the average return curve at the point m. The perpendicular drawn through t to the X-axis meets the average return curve at the point p. Thus b, p and m are three distinct points obtained on the average return curve. Corresponding to these points are B, P and M situated on the X-axis.

Economic Interpretations of these points.

Point B.—If the population were limited to OB, the average share of produce per head would come to bB. Since b is the highest point on the average return curve, bB represents the maximum share of the produce. Hence from the *individual's point of view,* OB must be the optimum (best) population. This optimum

population will always vary with the change in the position of b which is the point of intersection of the average return curve and the marginal return curve, and the curves themselves will derive their shapes from the existing economic conditions and circumstances.

Point P.—If the population were limited to OP, then pP would stand for the average share of the produce going to each individual. From pP may be deducted Pt, the minimum amount necessary for life, thus leaving pt which, in this case, is the surplus produce per head. The total surplus produce can be obtained by multiplying pt by OP. That the total surplus produce is maximum when the population is limited to OP can be easily proved in the following way:

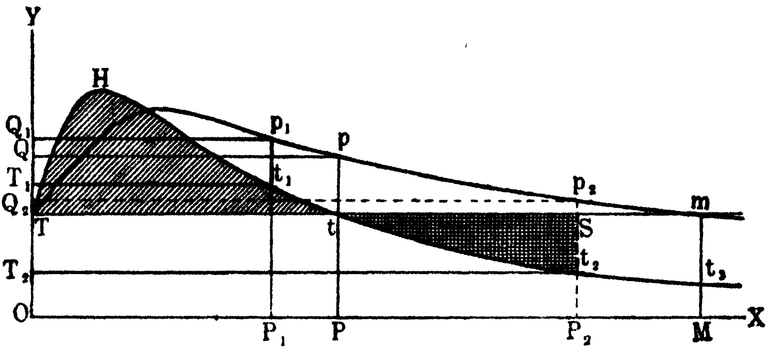


Fig. 2

Rectangle ptTQ represents the product pt × OP. It is equal to the shaded area THt which is the total surplus produce. It is to be shown that THt is the biggest area when the population is OP. If the population were as big as Op_1 or even OP_2, the total surplus produce would be smaller than that represented by the area THt. The total surplus produce is T_1Ht_1, when the population is OP_1 and the marginal productivity theory of wages is taken to be true. Evidently the area T_1Ht_1 must be smaller than the area THt. That the surplus produce will go on getting smaller and smaller as the population shrinks below OP needs no further elucidation. If the population were larger than OP, that is, if it were equal to OP_2, even then the surplus produce would not be more than that represented by the area THt, for when the population is as big as OP_2, the total surplus produce is equal to the area T_2Ht_2 *minus* the area $OP \times P_2$, that is to say, the area THt *minus* the area tst_2. In this case the marginal productivity is P_2t_2 which is smaller than the

minimum necessary for life, and consequently the deficiency of tSt_2 will have to be made good from the surplus produce THt. Here again it is abundantly clear that as the population gets beyond OP, the total surplus produce decreases and will continue to decrease more and more with the march of the population onwards.

From the *social point of view*, therefoie, OP is the optimum population, because the surplus produce which is the share of the society is maximum in this case. Let this population be called Proper population.

Point M.—If the population is as big as OM, the average return mM is exactly equal to the minimum necessary for life. It has been pointed out above that the marginal return becomes smaller than the minimum necessary for life as soon as the population gets beyond OP; therefore the deficiency must be made up from the surplus produce if no rent is charged. When the population expands to the size of OM, the area THt must necessarily be equal to the area tmt_3, so that the surplus produce at this stage is totally used up. Hence if population increases even beyond OM it is bound to perish because the average return becomes smaller than even the bare necessary for life. Therefore OM is the Maximum population.

Ideal Population.

OB is the optimum population from the individual's point of view and OP is the optimum population from the social point of view. Thus there are two optima. In between these two may be mathematically discovered a point L (Fig. I) such that OL is the optimum population both from the individual's as well as from the social point of view. This population will, in fact, be an Ideal population. Hence if the population is kept well within the limits OB and OP, it will be nearer approach to the ideal population than if it is kept either at B or P.

Optimum, Ideal, Proper, and Maximum Population.

Optimum and Maximum Populations.—In either of these two populations, there exists no surplus produce, and hence no rent. The optimum population ensures the greatest return per capita, while the maximum population does not allow more than bare subsistence.

If the marginal productivity theory of wages is correct, no population which is less than OB can possibly exist, because if it were so the average return being less than the marginal return,

no economic activity would proceed. Population will not, because it cannot, get beyond OM. Malthus was right in his observation that if the population were allowed to expand itself until the average return per capita was no more than bare subsistence, any further increase in it would only provoke Nature's wrath to sweep away the surplus population.

Ideal and Proper Populations.—There is surplus produce in each of these two populations. In the case of Proper population, the whole surplus produce goes as rent, so that no more than bare subsistence falls to the lot of each individual. In the case of Ideal population, a part of the surplus produce and not the whole of it is paid as rent so that the producer also gets a part of it and is not reduced to the level of bare subsistence.

Over-population and under-population.

It is necessary to have some standard by which to measure under- or over-population. The usual standard taken for this purpose is the optimum population. Population larger than the optimum is said to be over-population, and that smaller than the optimum is said to be under-population. The very name ' under-population ' suggests that the population in question falls short of the right size under the prevailing conditions and therefore may be increased with advantage up to a certain limit. If that is the meaning, it is quite right to say that the under-population is that population which is below the optimum population. But if advantage is the only condition upon which the whole argument is based, then population below the ideal population should also be regarded as under-population, because ideal population is beneficial both to the individual as well as to the society.

Similarly for over-populaion. If by over-population is meant the population larger than the optimum population, then the usual meaning given to the term ' over-population ' is quite correct. But if by over-population is meant the population which is looked upon as a calamity and which, therefore, must be reduced for the sake of people's prosperity, then what is usually called over-population is not necessarily over-population. For, rather than causing over-population, an increase in the optimum population only brings it nearer the ideal population and even when the limit of ideal population is passed, it approaches the proper population which is the best from the social point of view and cannot, therefore, be called over-population. When the limit of proper population is also crossed,

then only the population becomes over-population because it is beneficial neither from the social point of view nor from the individual's point of view.

Hence taking ideal population as the standard for the measurement of over-and under-population, it may be said that if the ideal population shrinks, it first contracts to the optimum population and then to the so-called under-population. When so much shrinkage has taken place that the efforts of the people will not enable them to have anything more than bare subsistence, it cannot continue any more and has to stop, for there the limit is reached. In a like manner, if the ideal population expands, it first grows to what may be called proper population and only thereafter to over-population until at last the limit of maximum population is reached.

Double duty of the State.

If the State charged from the proper population the whole of the surplus produce as rent, or if it allowed the population to expand up to the limit of maximum population, in each of the two cases the producer would not get more than bare subsistence. But no State like its people to be on the verge of mere subsistence; consequently a part of he surplus produce is allowed by the State to be retained by the producer and the duty of the State is to see that that part of it is used in increasing the standard of living and not the number of children. For, if left to himself, man, human nature being what it is, tends to multiply until at last he is reduced to the level of bare subsistence.

To sum up, the duty of the State is, in the first place, to leave a part of the surplus produce with the producer and, in the second place, to see that it only tends to raise to an equal extent the standard of his living.

ECONOMIC AND RACIAL PROBLEMS IN SOUTH AND EAST AFRICA

BY

DR. RADHA KAMAL MUKERJI,

Lucknow University.

Race and Industry in South Africa.

More than one-third of Africa has come under British rule, and the population in British territories in Africa is nearly 63 millions out of Africa's total population of 129,414,700. But in these territories the native races are considerable in number, not excluding the regions which are climatically suitable for European settlement. European immigration is impossible on a large scale in such areas because the presence of a large native community makes it difficult for the white man to undertake manual labour. There has been admixture of Europeans and natives in Angola and Mozambique. But an Africa resembling in its social composition South America with her mixed races and stocks is not an ideal acceptable to Europeans. Besides, the whites form a relatively insignificant community as compared with the native races, for over vast regions in Africa normal tropical conditions forbid European settlement. On the uplands of Kenya in British East Africa and in temperate South Africa European colonization in its true sense—in which manual labour as well as management is European—has been full of promise; but in both these areas the Bantu races are in an overwhelming majority, an unfailing reservoir on which the European thinks he has the right to draw while he himself shuns manual labour. Under these circumstances European immigration cannot progress, while the presence of Indian immigrants, who are competitors with the white workers, increases the pressure of economic competition imposed on the whites by the large and growing majority of the natives of the soil. The white man, in the face of this constant economic competition with the native, both in agriculture and in the skilled occupations, has but two courses open to him. He may be forced to abandon his domination or even to abandon the country, or he may accept the solution of

race admixture and perpetuate a Eur-African civilization.[1] The future economic and political development of the areas which have been settled by white colonists is, indeed, very uncertain. The white man's country is limited by the plateaux of British East Africa, but the Sanderson Commission, which inquired into emigration from India to the Crown Colonies and Protectorates, emphasised the fatal effects of sleeping sickness; nor is it probable that the British white settlers alone could fully develop the resources of the Protectorate. Tanganyika, Nyasaland, Rhodesia and Uganda, which are never meant to be white man's country, are more favourable fields for Indian emigration. It has vast potential resources; some areas are suitable for the cultivation of rice, maize, chillies, cotton, and tobacco and there are certain districts where the African tsetse fly does not exist. Moreover, nearly all the commerce, and much of the industry, of the East Coast of Africa, has been carried on by a few thousand Hindus for centuries, and it is not difficult to find self-reliant and enterprising Indians who will settle with a moderate capital. Indeed, the production of cane sugar, coffee, tea and other products of tropical and sub-tropical agriculture on the Eastern Coast, has been due mainly to the employment of Indian labourers. In South Africa, except in the extreme south, the black population far outnumbers the white, though it suffers under most detrimental and vexatious disabilities and regulations. The preponderance of cheap and docile coloured labour has proved debilitating to the pioneering spirit of the white man in South Africa, who comes to regard "kaffir work" as something beneath him. Indirectly this gradually unfits him to hold the land in competition with his coloured rival. The total number of Europeans, 15 years of age and over, engaged in agriculture was 163,830 in 1921, and the number of farms was 81,432. As many as 443,000 coloured persons were employed on these same farms, doing the rough and unskilled labour for their European masters. Agriculture cannot develop as long as the white farmer continues to be helplessly dependent on coloured labour, while manufacturing may be left out of account because the white population is too scanty at present to undertake it. The commerce of South Africa is predominantly dependent on the gold and diamond industries, which invited men from the interior of Africa and from China to work on time contracts. Since the use of white labourers in the mines would have threatened the position of the white population as the ruling class—south of the

1 *Vide* remarks of the Census Director, South Africa, 1921.

Zambesi the ratio of blacks to whites is five to one—about 50,000 Chinese coolies were imported under a treaty with the Government of China concluded in 1904. The measure met with violent opposition from the beginning in England itself, and, in consequence of a change in the political system in the year 1911, all the labourers were repatriated.[2] About 90,000 Negroes, however, were recruited from Portuguese East Africa. The introduction of native labour from Portuguese territory is now governed by a convention. The entry of black labour into South Africa from north of the parallel of 22°7′S. has been prohibited. This parallel touches the extreme north of the Transvaal. Thus a very large proportion of black labour is employed in the mines. Moreover, with mine after mine becoming unprofitable by existing methods of working, there is a tendency to increase the proportion of native black miners to white, or to reduce the white miners' age, or both.[3] The colour bar has been a direct violation of economic principles, and has divided South African labour population into segregated, hostile camps, white and black labour. By the law of the European Trade Unions, the latter is chiefly restricted to unskilled occupations. According to the latest official industrial census (1921-22), the manufacturing industries of South Africa employed nearly 111,000 non-Europeans, as compared with only 60,000 Europeans. But the sum of the wages paid to the latter was three times as much as that paid to the former, representing a ratio of average pay of five and a half to one, though in many trades the disparity was twice as great. In the gold-mining industry the ratio of coloured to white labour was 10 to 1, and in agriculture it was about 8 to 1. Dawson remarks: " The white trade unions care little where the native labourers come from, and even less what they are paid, so long as the mine owners do not alter the numerical ratio to the prejudice of the Europeans, and against any movement or indication of the kind they are constantly *en vedette*. With few exceptions these non-Europeans were engaged in unskilled labour, though unquestionably a large proportion of them were qualified to do semi-skilled and even skilled work, and were only prevented by the colour bar."[4] Against this sort of economic pressure the

2 Grunzel : *Economic Protectionism*, p. 297.

3 The relative proportion of whites and coloured in the mining industry for 1929, 377 mines reporting, was as follows : Out of a total of 297,165 employed. 38,851 were white; 3,289 Asiatic, and 255,075 natives and coloured persons other than Asiatics and natives. In 1924 there were 31,928 Europeans and 274,018 coloured, the coloured persons outnumbering the whites by 9 to 1.

4 Dawson : *South Africa*, pp. 257—260.

white miner is not in a strong position. He is not, it must be remembered, a workman using his own hands, but a ganger directing black workmen. His trade union limits the proportion of black to white, and also places an absolute veto on the promotion of any black to any directing position. The Indian skilled worker is also refused admission into the white trade union, and thus obtains little or no protection. But these rules are arbitrary, not natural, and apart from these there is no doubt either that many blacks and browns could do more responsible work than they are permitted to do, or that the proportion of coloured to whites could be largely increased without impairing vital efficiency. Skilled work of all kinds, as well as the supervision of unskilled labour, is carried on by skilled white workers who, strongly entrenched in their well organised trade unions, insist that the maintenance of labour and living standards depends on the maintenance of the colour bar as regards skilled trades, and for this reason trade unions maintain agreements with employers regarding all phases of the colour question, and fight large importations of native labour into their unions. Many employers, however, while recognising the menace of the native population, feel that without the aid of native workers the labour problem would be wholly incapable of solution; others refuse to recognise any such menace, believing that it is a myth, an invention of white labour unions. They say that South Africa would not be able to spell the word " economics " without the native workmen.

Colour Prejudice in South African Trade Unions.

The South African Industrial Federation itself at its National Convention on January 22nd, 1921, approved a motion providing that each labour body, whether local, provincial, or national, should decide for itself whether or not coloured labour be included. The idea was attributed by the leader of the Mine Workers' Union to the activities of the International Socialist Party, which he said was " not only educating these people, but helping them oust the white workers from their jobs." The mine workers, he asserted, were out for a White Transvaal and were determined to keep it white. Thus the white trade unionists have confined their organisation to workers of their own race, got better wages and conditions of work for themselves, and ranged themselves on the side of the unskilled whites, while the coloured workers have been left to struggle against both the greed of the capitalist and the race prejudice of the white workers. Recently a trade union of black labour has been established on the Rand, and has enlisted as many as 80,000 workers throughout

the whole of South Africa. Sooner or later this union will challenge the authority of the white narrow and exclusive labour policy, and demand protection regardless of race and colour. A further complication in this phase of the labour situation appears in the existence between the skilled whites on the one hand, and the natives and Asiatics on the other, of about half a million of unskilled white labourers, known as "poor whites," who drift back and forth between the rural areas and the cities, and who of necessity find themselves in competition with cheap native labour.[5] These "poor whites," who comprise one-twelfth of the white population, are the victims of an unfavourable physical and social environment, which has led to both physiological and mental deterioration. They are now drifting to occupations which even the black labourers despise. The skilled white workers are escaping supersession by Negroes and half-castes in their occupations by means of legislation according to which the black labourers are not permitted to undertake trades which are classified as skilled. There is, however, a strong tendency to employ Kaffirs in occupations long reserved for the white workers, and legislation cannot stem the tide of economic forces indefinitely. The preferential treatment of white labour to the point of excluding non-white labour, which underlies the Colour Bar Act of 1926, for instance, cannot stand the test of economics.

The twin colour problems, that of the African natives and that of Asian contract labour, are indeed most acute as well as difficult, and require to-day great foresight and liberal consideration of those racial distinctions which dominate the economics of South Africa.

Racial Watersheds.

South Africa, which lies below the tropics and between the Indian Ocean and the Atlantic, separates the European and the Asiatic peoples, though it is a meeting place for both. Here the white, brown, and black population have met and the economic conflict of the different stocks is more severe than elsewhere. It thus presents an economic phenomenon unique in its resemblance to that presented by the migration and struggle of the Chinese and Hindu immigrants in Malayasia. In South Africa as well as in Malayasia the decision as to which stock will emerge successful after the conflict will affect the fortunes of

[5] V. B. Turner: "Labour Unrest in South Africa," *Monthly Review*, November, 1921.

millions of people, for South Africa and Malayasia are like watersheds in comparatively close proximity to a hundred millions of Asiatics which stem the advancing tide of Indian and Chinese invasion respectively; and if these are over-stepped migrants will pour incessantly from the over-populated mother countries.

Indian Colonists in Mauritius.

A most significant feature of this conflict is the predominance of Indians in Mauritius, Natal and the East African seaboard generally. In Mauritius, which has been the taking-off ground for fresh migratory flights towards the west, the Indian population practically dates from the emancipation of the slaves in 1834—39. When slavery was abolished, the freed slaves were unwilling to labour any longer on the estates of their former masters, who therefore began the importation of indentured labour from India. The majority of the Indians are engaged in agriculture as labourers or small planters, and a large number is also employed as domestic servants. There are also Indian hawkers and Arab merchants, but the Chinese more or less dominate small retail trade.[6] The number of persons born of Indian parentage amounts to 258,000 or about 70 per cent of the whole population, so that even if immigration from India were to cease the Hindus would still greatly outnumber the general population. Their economic status is also fast improving. Those immigrant Indians who remain in the Colony after they have completed the term of their indenture, are not content to remain as mere labourers on estates; they purchase or lease small allotments of land and grow sugar on their own account, sending the canes to be crushed at the nearest mills. Many large estates have thus been divided into small holdings, and the process is still continuing. The result is that a great part of the land of the Colony is passing from the hands of the owners of large estates into those of peasant proprietors, and from the possession of Mauritians into that of Indians. With the exception of a few Chinese, it is the Indians only who have adopted the system of cultivation appropriate to the island, the poorer creole being averse from any from of agricultural labour. About one-third of the sugar now produced in the island is grown on these small holdings, which comprise about a third of the whole cultivated area.[7] Accustomed to agricultural labour and having

6 *Mauritius Royal Commission*, 1909.

7 *A historical Geography of the British Colonies*, Vol. I, p. 157.

saved some money, Indian immigrants and their descendants, who own or lease these small holdings, set themselves to grow sugar-cane and sell it to the factory, or to produce vegetables and food-stuffs for local consumption. Some also save enough money to become petty traders and shopkeepers. It was the prosperity of sugar industry not far off at Mauritius with its ample supply of Indian indentured labour which drew the attention of Natal, and at the expense of the Natal government the first ship-load of labourers from India reached the coast belt in 1860. From that year a steady stream of Indian immigration flowed into Natal except between 1866 and 1874. But long before the advent of the Indian in Natal he was quite a familiar figure in the interior of East Africa.

Indian Traders in East Africa.

Throughout East Africa the enterprising Indian petty trader class has been known for centuries before the colonisation of Mauritius and the advent of the European traders on the African coast. In 1874 the Indians in Zanzibar and on the East African Coast numbered 4,198 as against only 24 Europeans including officials. Indian merchants still form an influential community in Zanzibar, and all along the coast of East Africa the Indian merchants, together with Arab and Swahili traders, have carried on a considerable volume of trade, a portion being conducted in Indian coasting vessels. Vast sisal estates in German East Africa were owned by Indians, and Indian merchants had free admission to this territory when it was under German control. For several decades the Indians have been familiarising the natives of Africa with the use of many of the conveniences of civilisation. "It is definitely the case in East Africa," observes Ross, "that trade follows the flag."[8] The Indian trader was everywhere first to take advantage of the extension of the British administrative influence on the mainland, to begin the direct sale of trade goods to natives, and to open up new markets as one administration station after another was opened, even to the far distant localities down the Nile valley. He also penetrated into regions where the British flag had not been flown and showed both courage and enterprise as pioneer. In the French colony of Madagascar, the Indians, along with the Greeks, have been transacting commerce, serving as intermediaries between the natives and the French commercial houses, for many decades, and are still an influential community. Professor Gregory in 1893 found an Indian trader

8 W. McGregor Ross: *Kenya from Within*, p. 298.

installed at Kyemps, on the shore of Lake Baringo, some 500 miles from the coast. Throughout the Imperial Company days, Indian traders were the chief agents of development in the interior by financing trading caravans under Swahili or Arab leadership. They now own small stores for the sale of cloth, hardware, etc., in most of the outlying districts of Uganda,[9] and also actively participate in the transit trade to the Congo Free State. Thus the enterprising and resourceful Indian *banya*, who had already strongly established himself in Mozambique and Zanzibar, followed the expanding fringe of the British Empire on the eastern seaboard of Africa and even overran it. In the wake of the small retail dealers, and merchants in native produce, have come small contractors, skilled artisans, and also land-owners and farmers.

Abyssinia and Somaliland.

A large number of Indian traders, mostly from Western India and Kathiawar, are found in Abyssinia and Somaliland. In Abyssinia there are about 2,000 Indians, including both traders and artisans, who represent a flourishing community. A majority of these, however, have not settled and maintained regular connexion with India. In both British and Italian Somaliland a considerable portion of the import and export trade is in the hands of Indian traders. In Italian Somaliland the settlement originated from and emigrated from Zanzibar under the ægis of the Sultan, and many Indians have permanently established themselves.

Indian Labour on the Uganda Railway.

When the construction of the Uganda Railway was taken in hand the great problem was to find abundant and suitable labour. It was solved by the employment chiefly of Indian labourers. The understanding with the Government of India was that every emigrant labourer should be repatriated at the cost of the Colony if he so desired at the end of his engagement, but equally that he should be free to remain in Africa if he wished. The maximum numbers of African labourers on the work at any one time never exceeded 2,600. The average number of Indian labourers employed in 1896-97 was 3,339, rising rapidly to 20,484 in 1900-01, and falling again to 12,275 in 1902-03. The establishment of the settlement of railway coolies, station masters and clerical staff encouraged migration from the home-land,

9 *Handbook of Uganda*, p. 229.

though as a matter of fact only a small proportion of labourers imported remained in the country.[10]

Indian Settlements in East Africa.

In the areas where the Indian coolie, freed from his three years' engagement, has settled on the land, he has introduced the village well, the wheeled vehicle and the iron-tipped plough, of which common devices the natives are not everywhere masters. Indian peasants are beginning to form colonies in some of the warmer districts. It is for this reason that Tanganyika Territory is regarded as a promising colony for Indians. The advantage of encouraging pioneer Indian settlements not merely in the lowlands extending to the shore of Lake Victoria Nyanza but also along the entire coast where the climate is similar to that of India is obvious. Such crops as cotton, sessamum and linseed may easily be introduced, much to the education of the native who have already begun with success to imitate Indian methods of cultivation and irrigation.[11]

Fair conditions under Mandate.

Besides, in Tanganyika territory the Mandate requires that all nationals should be treated without any discrimination. The Indians now far outnumber the Europeans here and receive equal treatment. They have increased since 1921 from 9,000 to 18,000, the Europeans numbering only 4,580, of whom nearly 3,000 are government officials.[12] Two recent ordinances will prejudicially affect Indians in Tanganyika. First a "Non-Native Poll Tax" which will hit hard the poorer Indian traders, its incidence being unequally distributed, has been imposed. A new Trade Licensing Ordinance introduces the system of monopoly of purchase of native produce in certain specified areas, which would greatly restrict the hitherto enjoyed free right of Indians to exchange native agricultural produce for cloth and other commodities. Similarly in Southern Rhodesia, the Indians have been on the increase for the last few decades, there being now 929 Indians as compared with only 700 in 1904. Both

10 *The Man-eaters of Tsavo* graphically describes the risks which the Indian coolies undertook and the loss of life caused by the African lions, which were much more abundant when the railway was built than they are now.

11 *Vide* Sir Edward Buck's narrative, *Report of the Committee on Emigration from India*, 1910, Appendix, p. 58.

12 Land in Tanganyika can be held now only on occupancy right. The Indians now hold 166,000 freehold and 161,000 leasehold acres, and play the chief rôle in sisal and cotton production.

in Tanganyika and Rhodesia, the Indians are engaged in fields of work which the Europeans cannot undertake, and the virgin productive lands now await settlement by an industrious population, while the opportunities for the trader and capitalist are also most alluring.

In the whole of East Africa, the Indians outnumber the Europeans by more than two to one, and are now distributed amongst a large variety of occupations, which represent the solid bed-rock of East African economic prosperity. Conducting the bulk of the trade of the country, the Indian trader employs a large number of natives in minor capacities, since the African native has not reached the grade of training that would enable him to carry on even minor trade operations alone. Thus the Indian trader's competitor in a field which has long been his monoply is the European merchant. In 1921 the Europeans engaged in commerce numbered 937 in Kenya, while the Indian traders and shopkeepers numbered 3,942. No less valuable an element in society has been the Indian artisan class, the blacksmith, the carpenter and the mason from the Indian countryside, all of whom have found their way into the interior of East Africa. There is no trained African artisan class in Kenya as there is in South Africa, on the West Coast, or even in Uganda and Nyasaland. Regarding the Indian's control of land in Kenya, it must be pointed out that he does not compete with the African small holder or estate labourer, and that he has been less guilty of encroachment than the European. In earlier years, observes Ross, when Indians outnumbered European settlers by 60 or 70 to 1, they contented themselves by acquiring properties in towns, or upon already developed plantations at the coast, where enhancement of price was likely to be rapid and increased returns certain. Excepting a strong compact settlement of Punjabi peasants which has established itself near the Great Lake at Kibos, there has been little permanent agricultural colonisation in Kenya hitherto. The Indian was in the country mainly as a trader who has treated land more or less as an investment.

Anti-Indian Land Policy in Kenya.

By the time, however, that agricultural land in the highlands began to exhibit speculative values, discrimination against the Indian buyer was already being exercised by Government, largely at the instigation of European landholders.[13] A discriminatory policy has been followed since in Kenya against the Indians, as

[13] *Ibid.*, p. 417.

regards the alienation of lands, they being segregated in the lowland areas or "colonies,"[14] which are more or less arid. At the beginning vast tracts in the highlands were alienated to British capitalists or owners at a nominal figure, and gradually the most fertile part of the country has passed into the hands of the white farmers, who have more or less monopolised the production of such crops as coffee, wheat, maize and sugar. In 1908 a definite announcement was made that the highlands were to be reserved for Europeans alone, contradicting a former declaration that no discrimination with regard to land would be made.[15] An area of roughly 7¾ million acres, mostly in the highlands, *i.e.*, country lying from 5,000 to 9,000 ft. above sea-level, has thus been reserved for European settlement. Within the zone are found extensive areas of land of great fertility which are now uncultivated. In 1927 the total area under occupation in the colony and protectorate of Kenya was 4,737,920 acres, of which only 512,543 acres or 10·82 per cent were cultivated. By way of comparison it should be mentioned that about 40,000 acres only are occupied by Indian agriculturists, the main crops being maize, sugar-cane and cocoanuts. As regards political franchise, the white settlers have also been demanding a differentiation between a European and an Indian citizen of the British Empire, a distinction which has never been acceptable to the Indian community either in South or in East Africa. The Hilton Young Commission which recently considered the matter with special reference to East Africa pronounced that the ideal to be aimed at is a common roll, but added that this ideal can only be realised by consent of the European community. Recently the Imperial Government have decided to accept the principle of a common electoral roll based on an equal franchise open to all races and communities. Several Royal Commissions have indeed recommended the institution of a common electoral roll, but European settlers have been vehemently opposing this and it is uncertain whether a common franchise will be granted. It will thus appear that in a part of Africa where nearly 90 per cent of the trade is in Indian hands and where Indians have been treated on equal terms before, and have introduced important agricultural improvements, the Transvaal spirit of racial discrimination is becoming manifest, threatening to spread over the

14 For the history of the Indian question in East Africa see W. McGregor Ross: *Kenya from Within*, Chapters XVIII—XXIII.

15 See *Indians in Kenya*, Cmd 1922 of 1923. Only 12 per cent of the land held by Europeans is under tillage.

whole coast from Kenya and Tanganyika to Natal and Portuguese East Africa. So long, however, as the small colony of whites does not undertake manual labour but depends upon the abundant and cheap native labour supply, neither East Africa nor South Africa can become a permanent white settlement. Even though compulsory labour for Government purposes and heavy direct taxation forcing the natives to work for the whites may be abolished, the white community will remain as a small industrial oligarchy, and the Indians as peasant colonists, traders, and skilled labourers will be indispensable no less than the whites in the economic education of the far more numerous natives. Thus the future welfare of the natives, which represents the keynote of British Imperial policy in East and South Africa, can only be assured by the permanence and consolidation of Indian interests. The great bulk of the Indian population in South Africa is agricultural, and economic competition is not a serious detriment to the kinds of farming carried on by the white settlers. It is otherwise in the case of the Indian trading classes, who are regarded as a serious menace to the European small traders both in East and South Africa. In the Transvaal in particular, the success of Indian dealers has excited the jealousy of the European trading community and the end of a long agitation and series of acts is not yet in sight. The problem has aroused a great deal of controversy and does not begin and end with a shopkeepers' quarrel. It has been converted into a political and racial contest.

Indians and the Development of Natal.

The immigration of Indians into South Africa began in 1860 and originated in the introduction of indentured Indian labour into Natal for the development of the industries of the Colony. When the Indian immigrants were first introduced by the Government for the sugar plantations, the chief anxiety of the Colony was lest the Indian labourers should return to India after their indentures were completed. The assured promise of Indian labour led to a nearly fourfold improvement in the revenue of the Colony, increase of wages and economic progress in all directions. Liege Hulett observes: "The condition of the Colony before the importation of Indian labour was one of gloom, it was one that then and there threatened to extinguish the vitality of the country and it was only by the government assisting the importation of labour that the country began at once to revive. The Coast was turned into one of the most prosperous parts of South Africa. One cannot find in the whole of the Cape

and the Transvaal what can be found on the coast of Natal—10,000 acres of land in one plot and more crop—and that is entirely due to the importation of Indians." Recruitment in the early years was zealously carried out in India, and the early immigrants were encouraged to settle by grants of land. They were not allowed to return to India until five years after the expiry of their first indenture. The majority of the Indians who settled in the country and their descendants are still connected with agriculture. But a considerable number took to domestic service, industrial, labour, clerical work and trading in Natal. The Indian plantation labour did not spread from Natal, and the Indians who have crossed the Drakensberg are usually of a different type and drawn from the Bombay Presidency, mostly Muhammadan traders who first came to supply the wants of the indentured labour but quickly extended their dealings to natives and Europeans. It is they who mostly spread into the Transvaal and the Cape Province. Outside the coastal plain and western coal-field of Natal, the only other considerable group of Indians (about 10,000) is resident in the mining towns of the Rand. Some of the Indians are wealthy merchants of Johannesburg, while others have their firms in the countryside towns and valleys. The Orange Free State early passed a law prohibiting Asiatics from trading or carrying on any business whatsoever. The law is still in force, and the number of Indians here is insignificant. The Cape Colony until 1902 did not pass any restrictive measures against Asiatics, but it lay beyond the beaten track and it also does not comprise a considerable Indian population. The Indian problem of South Africa is thus confined to Natal and the Transvaal.

In Natal there are now some 155,000 Indians as compared with 177,000 white men (about two-third are Colonial-born Indians and, only one-third consists of Indians born in India). There are farmers, labourers and artisans as well as traders. They have, in fact, possessed themselves of almost the whole of the retail trade. In 1903 there were 26,223 coolies working under indenture, while 15,000 additional labourers had been requisitioned by employers, and the census of 1911 showed that the total number of Indians was 135,000. Nearly half of them were born in the Colony. The number rose to 142,000 in 1921 and to 155,000 in 1929. The European population was 136,838 in 1921 and 177,424 in 1931.

Conditions of British Indians in South Africa.

The distribution of Indians in all the provinces of South Africa is as follows:

	1911	1921	1929 Approximate
	—	—	—
Natal	135,000	141,336	155,000
Cape	8,000	6,498	8,000
Transvaal ..	12,000	13,405	20,000
Orange Free State ..	100	100	600

The total number of Indians as estimated in 1929 as compared with some 1,800,000 whites was 186,000. The majority of the Indians outside Natal are to be found in the Transvaal, whence the anti-Asiatic spirit arising out of trade competition which is relatively unaffected by social disabilities spreads like an unquenchable and slow burning prairie fire. But the outstanding facts remain that the Europeans now far outnumber the Asiatics, that even in Natal the European population overtook the Asiatic in 1923, and that there is no danger of the Asiatics swamping the white population in the Union. Secondly, more than 75 per cent of the Indians now in South Africa were born in the Union and have no other motherland, and they can fairly and reasonably claim themselves as the Union's citizens. Thirdly, it is estimated that only 37 per cent of the European population is British. British emigration to South Africa is making no headway, and there is a considerable emigration to Rhodesia and other adjoined regions. Thus the numerical preponderance of the Dutch will increase in the coming decades. The Indians who fought in the Anglo-Boer War now find that the present policy of discrimination against them is not in favour of the British but of the Dutch community, whose sense of national individuality often has shown itself in opposition to a broad South African patriotism, not to speak of a wider imperial outlook.

The following is a tabular statement of the rights and disabilities of the British Indians in the Union of South Africa:

	Existing rights or privileges.	Existing disabilities.	Proposed possible disabilities.
Cape Colony...	Municipal franchise, political franchise, no segregation in law or practice, colour bar not rigidly enforced.	Arbitrary treatment by certain local bodies of trading rights. Difficulty of obtraining trade licences.	
Natal ...	Municipal franchise. Ownership of land and residence.	No political franchise. Further enrolment of Indians as burgesses has been prevented. No actual representation on local bodies. The right of acquiring and owing land in uplands withdrawn. Racial distinction in trading licences and municipal bye-laws, social ostracism, *e.g.*, in respect of public and semi-public conveyances and places.	Restriction of trading rights. Harsh treatment under immigration laws. Segregation (residential and commercial). Restriction of rights of purchase of lands.
Transvaal ...	Right to trade. No segregation in practice.	No political franchise. Racial discrimination in trading licences and municipal bye-laws. Social ostracism. Segregation in law. No ownership of land direct or indirect.	Restriction of trading rights. Harsh treatment, under immigration (residential and commercial). Prohibition from the acquisition of rights under the Gold Act and from residence, occupation and business in the gold areas.
Orange Free State.	None except the right to live as domestic servants.	Absence of all rights	
East Africa ...	Right to trade, and to hold land. Municipal and political franchise.	Indian farmers are segregated in lowland areas or colonies.	Restriction of trading rights.

The rights and privileges of the Indians in South Africa had suffered lapse from time to time and they, indeed, present a sad and chequered history. Since 1885, when anti-Asiatic legislation commenced in the Transvaal there has been a steady strengthening of the restrictions of Indian emigration and denial of privileges and opportunities for the Indians in the country. Ownership of land and fixed property has been prohibited except in certain specified locations. Trading has been subjected to restrictions which have been a perpetual source of contention and litigation. Even Municipal franchise rights have been denied. Egerton observes: " Lord Lansdowne had put forward as one of the main grounds of the South African War the insistence upon a more generous treatment of British Indians. And yet what do we find? That their condition became seriously worse under the substitution of British for Boer jurisdiction."[16] The most bitterly felt grievance was a poll tax of three pounds imposed on all Indians who, after completion of their indenture, wished to settle in Natal permanently. Such tax, which was remitted in the case of re-indentured Indians, and which thus was directly meant to induce the Indians to return either to India or to the plantations, was deeply resented by the Indians both in India and South Africa. The situation became acute and was fanned by race jealousy and prejudice. There was a passive resistance movement led by Mr. Gandhi, which was followed by the Gandhi-Smuts agreement abolishing the poll-tax and guaranteeing the legal and racial equality between different subjects of the King-Emperor. Immediately afterwards came the Great War, which checked for the time being any anti-Asiatic legislation. After the War, trouble arose first in the Transvaal regarding prohibition of ownership of land and residence, and the grant of trading licences to the Indians, which was thoroughly opposed to the spirit of the Gandhi-Smuts agreement. Ultimately a Commission was constituted to report on the whole Asiatic question. The Commission found that the fear of the increase of the number of Asiatics in the Transvaal and Natal was unfounded, and that any increase furthermore was impossible owing to the disabilities to which an unregistered Indian was liable in the Transvaal. In addition, as regards economic competition, they found that it was only the retail traders who undersold, but these were considered as a useful community even by the whites themselves. Later, however, the Areas Reservation and Immigration Bill was proposed which sought to impose on the Indians further dis-

16 Egerton : *British Colonial Policy in the Twentieth Century.*

abilities and hardships. It established the principle of compulsory segregation and made the immigration laws much more severe. This aroused a good deal of opposition amongst the Indians both in South Africa and in India, and was met by a counter-agitation in South Africa amongst the Europeans. Finally a Round Table Conference was held in 1927. An agreement was reached in Cape Town according to which the Indians are accepted as the legal subjects of the South African Government, which realises its responsibility towards their education and other matters with a view to their attainment of the European standard of living. The Class Areas Bill is dropped, but the withdrawal of this Bill is balanced by re-emigration according to a new assisted scheme of emigration. An Indian may repatriate to India and will receive from the Union Government a bonus, the passage money and the railway fare. The Union domicile will not be lost excepting by three years' continuous absence from the Union, and an assisted emigrant wishing to return within a period of three years will be allowed to do so on repayment of bonus and cost of passage. An Indian agent was also appointed in South Africa to look after the interests and welfare of the Indians. According to the scheme of assisted emigration, about 12,000 emigrants returned to India. The majority of these have found both economic and social conditions in the mother country very unfavourable, and this has roused in India a strong public opinion against the repatriation of Colonial Indians who have met their doom in the slums of Calcutta and Bombay. Though the agreement represents a definite change of the attitude of the European towards the Indian settler, discrimination against Indians in the grant of transfer of trade licences is still being shown by the licensing officers and town councils. Such racial disabilities over trading licences place the Indian at a serious and perpetual disadvantage as compared with white commercial interests. To the political and industrial disabilities there is added the irritating social ostracism which denies to Indians equality in use of the public means of transport.

Natal's Debt to Indian Labour.

In 1921 the total area of land held by Asiatics in Natal was 89,869 acres, of which 73,873 acres lay in the coast belt districts. Here a high degree of success has been achieved by the Indian cultivator in vegetable gardening and fruit-growing. As early as 1872, a commission reported that in one place they found some Indian labourers jointly occupying a farm of 120 acres

(for which they paid one pound an acre as rent) which they cultivated with sugar-cane and maize.[17] Animal husbandry has also progressed, and the Indians in some areas where agriculture cannot flourish have reared and improved cattle and sold them at a higher price to the villagers. The sugar industry in Natal flourished as the result of the importation of Indian labour, and the chief reason for the decline of the tea industry is the withdrawal of the Madras coolie labour, native labour having been found inefficient for tea-picking. In 1924, out of 15,000 acres available for the cultivation, only 2,900 acres were planted with tea in Natal. Thus in Natal the white man is pursuing the same dog-in-the-manger policy as in Australia, preferring to keep the land unproductive rather than permit the importation of Asiatic labour for its cultivation. Not merely tea but also sugar and coffee plantations in Natal owe their prosperity to Indian labour. The Clayton Commission pointed out in 1909 that the employment of Indian labourers was widespread and not confined to one or two particular industries. Generally farmers found them useful, Government railways and coal mines employed them by the thousand, and their activity has been of great benefit to the province as a whole.[18] It is true that in Natal the Indian population has been showing a little increase during the last two decades, but this is as nothing compared with the increase of the white population. This would be evident from the following figures:

Year	Indians	Europeans
1904	100,918	—
1911	133,439	98,114
1919	135,500	122,008
1921	142,000	137,695
1929	155,000	175,000
1931	151,390	177,424

This clearly shows that Indian competition does not depress the European population. Outside Natal the position of the Indian is not very strong; yet discrimination is exercised in the matter of trade licences and the entrusting of local or provincial bodies with powers for this object. The number of the Indian population in the Transvaal, for instance, is not increasing seriously if at all.

17 Geoghegan : *Note on Emigration from India*, p. 184.

18 Memorandum submitted by the Paddison Deputation.

India's Part in South Africa's Development.

Leaving aside this consideration, the obvious fact remains that the Indians were introduced to meet the needs of Colonial industries. Labourers from British India were imported into South Africa whenever progress in industry was made or contemplated. Indeed, neither the sugar plantations nor the gold mines could have been worked merely by native labour, which had to be supplemented by Africans imported from other parts of Africa, and by Indians and Chinese. Thus the development of the wealth of South Africa has been due largely to Indian labour. Indeed, so valuable are the Indians to the industries of the Colony that the Royal Commission of 1919 reported that the total repatriation of the Indian labourers from Natal would ruin the mining and planting concerns. But when once the Indian immigrant was admitted it was seen that he could displace the European in many fields of activity, and from that time the Colonists set up an attempt to push the British Indians out of South Africa by the exertion of slow pressure with the minimum of loss to themselves. Lord Milner wanted to employ Indian labour for railway construction in the Transvaal under the same conditions of repatriation, etc., as were imposed on the Chinese by the Asiatic Labour Importation Ordinance. The coolies were to be exclusively employed by the Transvaal Government; they were to be brought over under indenture and returned to India upon the expiration of their period of contract. But the Indian Government refused to allow Indian labour to be employed in the Transvaal at all under these illiberal conditions. The policy of indenture was subsequently given up, and when the Indian Government tried to stop emigration to South Africa the Natal Government expressly asked that it should be allowed to continue. Never have South Africa's wishes in the matter been thwarted either by the Indian or the Imperial Governments. Indians came to Natal at the desire of the people of Natal and have never been thrust upon them. And yet, with the object of reserving employment for Europeans, political and civic disabilities are being heaped upon the Indian immigrant to whose services South Africa stands so deeply indebted.[19] The tendency of recent legislation of the Union Government has been to oust the Indians from all branches of skilled and semi-skilled labour which are reserved for the Europeans. The outstanding piece of such discriminatory

19 See "The Asiatic Invasion of South Africa," by F. C. Stone in *The Nineteenth Century and After*, July, 1921: also Worsfold: *Reconstruction of the New Colonies under Lord Milner*.

legislation is the Work and Mines Act, also known as the Colour Bar Act, which has rendered the position of the Indian labourer very insecure.[20]

Trade Unions and Coloured Labour.

The trade unions do not permit membership to the Indian labourer, while they also throw obstacles in the way of the recognition of Unions of Coloured Labourers by the Government. Recently a South Africa Indian Trade Union Congress has been constituted and steps have been taken to organise the Indian workers in several industries—tobacco-workers, tinsmiths and metal workers, and laundrymen—into unions. An attempt is being made to secure membership for Indians in the existing white unions on equal terms with the European members, or failing that, to obtain recognition of the Indian organisations as separate branches of the existing unions. No doubt the formation of parallel and mutually exclusive unions on a race basis will not be conducive to industrial harmony, but if the White Labour policy gains ascendency this is inevitable.

Recent Anti-Indian Legislation in South Africa.

The Asiatic Poll-Tax Ordinance passed in Kenya, the Liquor Act passed in 1928, which has indirectly discriminated against Indian waiters and wine stewards, throughout the Union, the difficulty of the Indian in obtaining trading licences both in Natal and the Transvaal, and the attempt in the Transvaal to pass an ordinance restricting hawkers and pedlars from carrying on business at any place and to remove one of the few safeguards against race discrimination in licensing matters for general dealers, are all symptomatic of the tendency of racial prejudice that is waxing stronger in the Union. The White Labour policy of the Government of the Union of South Africa is already reflected in the table of occupations of Indians returning to India under the assisted emigration scheme. To quote the words of the Agent of the Government of India in South Africa: " This policy which was pursued before the Cape Town Conference and which has the support of the Labour wing of the Government has been responsible for the reduction of Indian labourers employed by the South African Railways and Harbours Department from over 2,000 in 1923 to 1,034 at the end of 1928; for the gradual replacement of Indians in the Department of Posts and

20 See note 15, p. 278.

Telegraphs; and the pressure brought to bear on municipal bodies to employ 'poor whites' on work hitherto performed by Indians, coloured persons and natives."[21] While lack of employment in some measure stimulates Indian emigration, the occupations of the emigrants often are those in which a large demand for labour and greatly improved terms obtain. Recently the Union of South Africa passed the Immigration Quota Act, the effect of which is to restrict the immigration of persons born in all countries except the British Commonwealth, Austria, Germany, Holland, Italy, Norway, Portugal, Spain, Sweden, Switzerland and the United States of America. In 1931, the South African Government passed the Immigration Amendment Bill, depriving the Indians who held registration certificates of the permanent right of entering and residing in the Transvaal. A definite right acquired as a result of the famous Passive Resistance movement led by Mahatma Gandhi was thus nullified at one stroke. Early in 1930 the Government of the Union of South Africa set up a Select Committee of the House of Assembly to inquire into certain questions relating to the right of Indians to occupy and own fixed property in the Transvaal and to propose such legislation to the House as it might deem fit. This decision was the result of a number of recent judicial decisions bearing upon the occupation of premises on proclaimed grounds in the Transvaal by persons belonging to the native races of Asia and to a widespread belief that the intentions of the Union Parliament as indicated in Act 37 of 1919, which purported to prohibit the acquisition of immovable property by Asiatics subsequent to its coming into operation, were being systematically defeated. The Select Committee's draft bill passed through first and second readings in the South African House of Assembly, but in view of the agitation of the Indian community and in deference to the Government of India's request, the consideration of the bill has been postponed altogether until the Cape Town Agreement comes up for revision. It is true that the laws of the Transvaal had been restrictive in their application to Asiatics, but the provisions of the various statutes were not sought to be applied strictly. The Indians continued to obtain land on lease for trading in the mining areas, and acquired fixed property through European trustees and also by forming joint stock companies. New interests sprang up, and to wipe these out now would involve a serious economic blow to the Indians, apart from the bill being a violation of the spirit of the Cape Town Agreement.

21 *Annual Report* of the Agent, 1928. See note 15, p 278.

Grievances of African Native Workers.

Apart from the Asiatic immigration question there remain the grievances of 250,000 native workers. These grievances are: (1) There are no less than seven whole groups of industrial position forbidden to the natives by the trade unions of South Africa. (2) The inadequacy of wages. (3) The racial Pass Laws, the inequality of compensation for mining diseases, accidents and deaths. The question of natives' rights in land is still unsolved and is now as pregnant with menace as ever.

South Africa's Opportunity.

It is, however, a great sign of promise that in South Africa the dividing line between the white, black and brown populations is not markedly drawn as it is in the West. For the region which divides the Indian and Atlantic Oceans and the Asiatic and European races belongs to the British Commonwealth of Nations, which is overwhelmingly coloured. The United States population of a hundred and five millions includes approximately only 11 millions of coloured peoples,[22] while out of the total of nearly 450 million British subjects nearly 400 are coloured. Thus, in spite of the present and ever-growing intensity of discrimination, the problem of Oriental emigration must needs be solved sooner or later by British Imperialism on the basis of justice and freedom. Sir P. C. Lucas once said: "Colour is a bar to fusion, but it is also a bar to confusion and may well be a promoter of harmony." Greater than the mission of the United States is that of South Africa in welding together white, brown and black races, by an award of equal opportunity in agriculture, commerce and industry for all peoples of the Empire regardless of race or colour. Thus South Africa's action on the question of the colour bar will be the turning point not only in the history of Asiatic expansion, but also in the economic intercourse of rival and conflicting races.

[22] 10,463,013 Negroes; 111,025 Japanese, 61,686 Chinese; 242,959 American Indians; 9,506 Miscellaneous.

REVIEW OF BOOKS

World Affairs, by Roth Allim, D. B. Taraporewalla & Sons, Bombay, pp. 152 (1934). Price Rs. 4.

The author whose portrait adorns the frontispiece appears to be a young man of promise. The book contains eleven chapters which in the words of the writer "are exploratory attempts to find the measure of each nation as revealed in events of national and international moment." It is said to be the precursor of "more ambitious works on each nation separately" which the writer contemplates. The essays fall into two groups; one set dealing with the outstanding problems in certain leading countries of the world, such as India, U. S. A., Japan, Germany and the Irish Free State, and another dealing with topics of world interest such as the League of Nations, Economic Crisis, Disarmament and War debts and reparations. They show a large amount of reading of contemporary journals and a clear understanding of the vital questions of the hour in the countries dealt with. The author has been more successful in his treatment of foreign countries than of his own. His chapter on India is addressed to the unborn generations of India but it has no message to give them. This may be excused by the confused state of affairs now existing in India. He has dealt with the problems of the N. R. A. in America, the supremacy of Japan in Manchuria and of the Nazi movement in Germany in greater thoroughness. His chapter on the League of Nations though brief is full of striking points. While he points out the reasons for its comparative failure in its relations with Japan and Germany, he rightly declares that when the present economic depression lifts, the League "will have a fresh career of International service." He has properly appreciated the social and the economic work of the parent body and of its affiliated organs. The "World Economic Crisis" must needs have a chapter in a volume on "World Affairs" however brief it may be. But the writer has packed it with matter and has touched upon its causes, its nature and some of the remedies for it. As a sample of his critical acumen a quotation may be made: "Economic nationalism is concerned more with politico-economic power than with the economic welfare of the people; it is born of the racial feelings and the nursing of war sentiment in times of peace—both are aggravated forms of unneighbourliness. A prospect of war makes the doctrine of economic nationalism appear even plausible; and commercial antagonism intensifies the bias towards economic self-sufficiency."

There are a few mistakes of idiom and printer's devils here and there. The get-up of the book is not as attractive as it might have been, for the price fixed for it. Though the work is obviously of interest to the politician and the general reader only students of economics will find plenty of interesting matter in the pages of this slender volume. We look forward to the publication of the author's more ambitious works our appetite for which has been whetted by these 'cocktails' as he calls these essays.

N. S. Narasinha Aiyangar

THE INDIAN CONSTITUTION: A Survey, by S. K. Lahiri and B. N. Banerjea. The Politics Club, Calcutta, pp. 287. Price Rs. 2-4.

This is a useful publication. It gives a general outline of the present Constitution of India together with, to quote the relevant words of its authors, "a brief story of its evolution, in a historical setting." It also contains a short review of the work of the Joint Parliamentary Committee. One noticeable defect of the book, however, is that the authors have attempted to deal with too many things within the limit of 287 pages. They have begun at "Ancient India" and ended in the "Joint Parliamentary Committee on Reforms." As a result, they have often only mentioned a topic and then passed on to a new thing. Besides, there are some errors both of fact and, perhaps due to defective proof-reading, of English in the book. In regard to errors of fact, one or two instances may be cited. The authors write (pp. 69-70) that before the introduction of the Montagu-Chelmsford Reforms, "the number of members of the Executive Council of the Governor-General was six." This is not correct. The pre-Reforms Executive Council of the Governor-General consisted ordinarily, and as a matter of fact, of six *ordinary* members and the Commander-in-Chief as an *extraordinary* member thereof. Moreover, whenever the Council would assemble in any province having a Govenor, the latter would be another *extraordinary* member thereof. Nor is it correct to state (p. 53) that the High Commissioner for India is appointed by the Crown. The High Commissioner is appointed, under an Order of the Crown in Council, dated August 13, 1920 (*vide* the *Gazette of India*, Part I, October 2, 1920, pp. 1881-82), by the Governor-General of India in Council with the approval of the Secretary of State in Council. Further, there are several misleading statements in the book. For instance, the clause "half of whom were to be non-officials" (line 18 from top, p. 25) should have been written as "at least half" or "not less than half," etc. Again, it is not *technically* correct to say that Lord North's Regulating Act of 1773 "was the first of a series of parliamentary enactments regarding India" (p. 19). As many as four Acts had been passed by Parliament in 1767 relating to the East India Company, and one of these Acts, namely, 7 Geo. III, C. 57, had "established an agreement for the payment of the annual sum of four hundred thousand pounds, for a limited time——two years, to be computed from the 1st of February, 1767,——by the East India Company, in respect of the territorial acquisitions and revenues lately obtained in the East Indies." It is hoped that these and other defects in the book will disappear when its second edition is brought out.

The get-up of the book is quite good.

D. N. BANERJEE

ANDHRA ECONOMIC SERIES; 4. *Economic Conditions of the Zamindari Ryots*, N. G. Ranga and two others. Published by the Peasants' Protection Committee, Bezwada (1933). Price Re. 1. 5. *The Tribes of the Nilgiris*, by N. G. Ranga, B.Litt. (Oxon.), published by the Manager, Andhra Economic Series, Bezwada (1933). Price As. 12.

Mr. Ranga is no stranger to our readers. His first two studies entitled the "Economic Organisation of Indian Villages" were reviewed in

Vol. X of this journal (1929-30). Since then though the author has changed his profession from teaching to Politics, his zeal for economic studies has not slackened. These booklets are proofs of his sustained interest in them.

The Monograph on 'the social and economic conditions of the Nilgiri tribes' is the result of Mr. Ranga's investigation as a special officer deputed by the Madras Government in 1928, supplemented by his subsequent inquiries. The four tribes dealt with in the book fall into two groups—The Badagas and the Chettis forming a peasant proprietary class and the other two—the Kotas and the Pannians—a labouring and artisan class, helping the other in their agricultural occupations. All these tribes have been subjects of Ethnographic study for over a hundred years—(*vide* Thurstan's "Castes and Tribes of Southern India"). But Mr. Ranga's inquiry is perhaps the first attempt to discover their economic conditions. It would appear that in the Nilgiris as in other parts of India, a silent revolution has been going on in the social and economic life of the people by reason of their contact with the European Planter. The Badagas—the most important of the four tribes—are the descendants of immigrants from the North (Mysore), as their name itself indicates. They seem to be a decaying agricultural community, parting with their lands and eking out a precarious livelihood by working in the tea and coffee plantations of European and Indian capitalists. To check this process Mr. Ranga recommends the passing of a Land Alienation Act as well as the encouragement of tea and fruit cultivation by the Badagas themselves under the patronage of Government.

The Chettis—the next important tribe—have developed a peculiar kind of rural economy—namely, the self-sufficient 'homestead,' evidently due to their close affinity to their west coast neighbours, who have always been having this system. The opening up of the hills has brought the Muhammadan moneylender to their doors much to their detriment. They are also subject to the arbitrary exactions of their landlords (jenmis). They have a subsistence economy; the only relieving feature of it is that their holdings are not getting subdivided as in most other parts of India.

The Kotas, though they are the artisans for the other hill tribes, are now a depressed class and the Pannians are a kind of Sewile tribe, ministering to the other classes in return for a precarious livelihood. The author concludes his detailed studies by describing the general standard of living of these tribes and by calling attention to their chronic indebtedness.

The pamphlet on the economic condition of the Zamindari ryots is, in the words of the Editor, the report of the Economic Inquiry Committee appointed by the Second Andhra Zamindari Ryots' Conference, held at Ellore in August, 1933, to inquire into the conditions of the zamin ryots. Mr. Ranga was the president of the committee and two other members were associated with him. The report contains a detailed description of the conditions of the tenants of various zamindaries, situated between Tisupati in the South and Ganjam in the North. If the facts and figures of the report are accurate, they reveal a very sorry state of affairs. In the last chapter entitled "conclusions," it is stated that the rates of assessment in zamindari estates are higher than those levied in the neighbouring ryotwari lands. The modes of assessment and of rent collection seem to be medieval. In many estates there has been no survey and the

principles of settlement are often indefinite and arbitrary. The book opens with a chapter containing the minimum demands of the zamin ryots as formulated at the Conference held at Ellore. It is a kind of 'Manifesto' of which we may hear more in the future. The book is a valuable addition to the meagre literature on the economic conditions of the tenant class in Southern India.

N. S. N.

THE A B C OF THE NRA, by Charles Dearing & Others, the Brookings Institution, 1934, pp. xiv+185; $1·50.

PRICE CONTROL DEVICES IN NRA CODES, by George Terborgh, the Brookings Institution, 1934, pp. 45; 50 cents.

The recent ruling of the Supreme Court to the effect that the vast powers conferred upon the President of the U.S.A. under the National Industrial Recovery Act were unconstitutional has practically knocked the bottom out of the most significant among the New Deal Measures inaugurated by Mr. Roosevelt in the summer of 1933. But, attempts at salvaging certain important fragments of the wreckage are being made through the recently passed Wagner Labour Dispute Act, which authorises the setting up of an independent Labour Relations Board that will function as a final Court of Appeal in all disputes regarding collective bargaining; and through the Guffey Coal Bill, which would permit in the soft coal industry the system of minimum prices and wages, which was formerly authorised under the NRA codes. And the large measure of public support that these measures have received as well as the decision of the majority of the more enlightened among the employers to continue to observe, on a voluntary basis, the minimum wages and maximum hours provisions of the NRA codes shows that the codes had at least passed the severe test of practical experience and that, for the most part, they must be revived in some new guises or under some ingenious constitutional formulæ, if ever the system of capitalistic enterprise is to be purged of its many, notoriously tragic, self-destructive and anti-social tendencies. For this reason and also due to the fact that the NRA was a vast and courageous challenge to many of the central doctrines of the orthodox school of Economics, the two volumes under review are of supreme interest alike to the student of economic theory and the practical reformer.

The volume named *The A B C of the NRA* divides itself into two parts: The first deals with the background and the main provisions of the National Industrial Recovery Act and attempts a suggestive analysis of the legal and the economic issues raised by it. The second part leads us into the most interesting region of the actual machinery of the Recovery Administration, gives a dramatic account of the President's Re-employment Agreement and the Blue-Eagle Drive in the critical days of the 1933 summer, and very lucidly describes how the codes are made and how they are administered and enforced. The book is enriched with 5 Appendices which reproduce Title 1 of the Act, some sample codes and code provisions, President's Re-employment Agreement and two Presidential statements of Policy.

This volume is largely descriptive, but even so it contains some highly illuminating chapters, the most notable ones being Chapter IV, the

Administrative Organisation, which describes a multitude of departments, offices and boards, purely official or partly official or purely unofficial, and all linked together in a vast maze of relationships with one another; and Chapters VI and VII, which take us through the different stages of the origin, growth and functioning of the Codes and give a highly suggestive picture of how the numerous and heterogeneous units of a far-flung industry are being energetically led or driven out of a tragic state of self-destructive anarchy into one of self-government and ordered progress, and how the divergent interests of labour, industry and consumer are sought to be reconciled at different points in the structure of the New Economic System. But these Chapters also bring to light the many dangerous cliffs, narrow and tortuous straits, and hidden rocks and shoals that block the way and have to be cautiously and skilfully negotiated in order that the ship of economic reform with its precious load of cargo may be enabled to arrive safely at the port.

The second volume under review, *Price Control Devices under the NRA Codes*, may be regarded as a natural supplement to the first one, and is equally illuminating and valuable, but rather from the analytical point of view. The introductory chapter allows us to have a glimpse of the fateful doubts and uncertainties in which many of the codes are wrapped, because, while the Act itself expressly forbids the inclusion of any monopolistic devices in the Codes, many of the Codes do in fact incorporate provisions for concerted action among the units of an industry aiming at price control, which runs counter to the anti-trust laws. Among the many methods of price control contained in the body of a large number of the codes, four stand out as pre-eminent: (1) The fixing of Minimum Prices, (2) Prohibition against selling below individual cost of production. (3) Open Price Arrangements, and (4) Limitation of Output or Productive Capacity. Economic Theory has no doubt prepared us to anticipate many of the intricate and intractable problems that would be presented by each of these four methods of price control. But this little volume reveals an amazing variety of facts and practices which make our problems appear more baffling, and, therefore, also more challenging and attractive than ever before. In the case of some of the largest and most important industries, *e.g.*, petroleum, soft coal, steel and lumber, the codes provide for the fixing of minimum prices that are uniform for all members of an industry selling the same goods in the same market. But, as different units may and often do produce articles of different design and qualities, there must be differential minima allowed for the products of different firms. Then, again, although in the majority of cases, the code authority representing the industry is the single price-fixing agency, the formulæ for such price-fixing are many and various. Thus, it is laid down that the minimum prices shall be either (*i*) fair and reasonable or (*ii*) equal to the lowest reasonable cost of production or (*iii*) equal to the cost of production of the lowest-cost representative firm or (*iv*) compensatory or (*v*) equal to the weighted average cost of production or (*vi*) in the case of retail lumber and builders' supplies, equal to the modal cost of handling and selling. It is evident that the phrasing of the formulæ is extremely vague and lacking in precision. Hence the wide latitude given to the code authorities in the interpretation and application of the principles. Similar problems are presented by the second and the third of the price control devices as well. There is, firstly, the question

of the application of a simple formula to meet heterogeneous conditions of production and sale; secondly, there is the question of the administrative and enforcement machinery; thirdly, there is the problem of tracking and preventing an infinite variety of devices by which evasions are sought to be practised. The fourth type of price control device is an indirect one. It seeks to regulate prices through control of supply either by the quota method or by limitation of machine hours or by limitation and regulation of replacements and new equipment. Here, also, there arise the questions of what should be the proper quotas, aggregate as well as individual and regional, and of whether the regulation of supply should aim at a stable or lower or higher price. And, again, what would be the effect of these measures on the efficiency of the industry as a whole? But these and other similar questions have been answered differently in different cases, and no consistent theory of public policy seems to have been applied. In any case, these divergent policies of price control have raised issues which are calculated to stimulate further theoretical analysis and to provoke a search for sharper and more refined tools of analysis.

H. L. D.

"AMERICAN BUSINESS LEADERS."—A study in social origins and social stratification. By F. W. Taussig and C. S. Joslyn—The Macmillan Company. $3'75.

From which classes in the community are business leaders drawn? How is the proportionate contribution of each class to the supply of business leaders determined? How are the disparities in the representation of the different classes to be explained? What is the influence of heredity and environmental factors in this matter? These are very interesting questions, answers to which can be found only as a result of comprehensive and detailed investigation. An enquiry of this kind is bound, at the very outset, to be attended with serious difficulties. How to define a business leader? How to compile a list of eligible persons? How to get them to supply the required information? And how to secure the machinery needed to work up the material collected? Those who have any experience of drawing up questionnaires and of trying to obtain the right kind of answers from the right kind of people, will appreciate the nature of the difficulties involved in an enquiry of such sociological character. And it is gratifying to find that the task has been achieved with remarkable success by Prof. Taussig and his co-workers.

Nine thousand businessmen responded to the appeal for information made to them and the data received from them forms the foundation of the work under review. Apart from the conclusions which the investigation has brought out (and they throw a flood of light upon the socio-economic structure of the United States of America) the methods adopted to make the enquiry accurate, comprehensive and fruitful, are worth careful study. We cannot describe here how business leadership was defined, how the representative character of the sample was ensured, how defective answers were dealt with and how and by whom the mass of material received was handled. It is enough to say that every effort was made to eliminate incomplete and doubtful information at every stage and that the support of big businessmen was enlisted by their being convinced that

the facts supplied by them would be treated as confidential. As regards the conclusions of the investigation, to quote the work, " not more than 12 per cent of our respondents had fathers who were farmers, and only about 10 per cent had fathers who were manual labourers. The proportion of respondents having fathers who were businessmen of one kind or other (owners or executives) is no less than 56·7 per cent. Here is definite evidence then, that the present generation of American business leaders has been recruited in greater part from the sons of businessmen. and only to a minor extent from the sons of farmers and manual labourers." The volume before us is calculated to prove extremely suggestive to all those who have occasion to take up an enquiry into socio-economic conditions.

V. G. K.

" AUSTRALIA IN THE WORLD CRISIS," by Prof. Douglas Copland, Cambridge University Press. 9s. net.

The book consists of eight " Alfred Marshall lectures " delivered by Prof. Copland of the University of Melbourne on the subject of the effects of the world crisis on Australia and the efforts made in that country to overcome them. The problems of Australia in respect of the economic crisis, though they are similar to those in many other countries, have certain special features. The country depends very largely upon agricultural production and exports for its prosperity. But it has, at the same time, pursued a deliberate policy of fostering national industries with the aid of a protective tariff. Until 1929, things went on well and the country steadily prospered. But the position contained in itself elements of weakness which developed into serious maladjustment with the very first impact of the crisis. Collapse of agricultural prices dealt a rude blow to Australia's national economy, and added to the stoppage of the inflow of capital, reduced purchasing power and the income of the people. Prof. Copland traces the developments thus started, through the successive stages, analysing the situation, as he goes, and offers a penetrating comment on the policies pursued to meet the difficulties as they arose. The author's analysis of national income, the losses sustained by various classes as a result of the depression and his critical examination of the remedies adopted for alleviating and counteracting the losses, are illuminating. His account of the working of the Commonwealth Bank, the Central Bank of Australia, has a special interest for us in India. We are told that the board of directors of the bank who were expected mainly to control the note issue and look after clearing transactions, without embarking upon an active trading policy in competition with the private banks, established a rural credits department for providing short term credit on primary products awaiting sale. Prof. Copland says that this department has been very successful and did not seem in any way to conflict with the principle that a central bank should keep its assets highly liquid. The bank was allowed to hold its reserves in sterling instead of in gold and the law did not lay down any particular ratio for the conversion of the Australian note either in gold or in sterling.

Very wide powers were given to the Commonwealth Bank in a manner unusual with central banks. Prof. Copland observes:—" These wide

powers might have been used unwisely if the Bank had come under the domination of political leaders determined on an extreme policy of either deflation or inflation. Fortunately the Bank pursued an independent middle course between these two extremes and was on the whole able to withstand pressure from business or banking interests." With regard to what is expected to happen as economic recovery slowly proceeds, he holds the view that " Australia, in common with other great overseas producers of foodstuffs, cannot hope to resume the march of her economic development at the old pace....A slackening of pace with a much reduced inflow of both capital and people appears inevitable in the new world economic forces that are now emerging from the depression....She must continue to look towards the East for light. Empire agreements cannot offer the outlet she urgently needs for foodstuffs that are now produced in increasing quantities by Great Britain herself." This is a very pregnant remark indeed. On the whole, Prof. Copland's lectures present a profound study of facts of Australian experience from which one has a good deal to learn.

V. G. K.

" COMMERCIAL BANKS, 1925--1933." League of Nations Publication.

Businessmen and students of economic conditions must feel deeply indebted to the Economic Intelligence Service of the League of Nations for bringing out volumes of statistical information of universal importance for the use of interested people and for presenting the facts in an instructive manner. The volume on commercial banks gives a brief history of the development of banking in forty countries during two interesting periods, *viz.*, that of prosperity from 1925 to 1929 and of the prevailing depression from 1930 to 1933. The introductory note summarises the tendencies in banking in different countries and draws attention to their significance. It is interesting to note that the deposits in the commercial banks of the forty countries concerned, amounted in 1925 to 70,000 million gold dollars and at the end of the boom period to 82,500 millions. At the end of 1932, this amount was reduced to 60,000 million dollars. The characteristic feature of banking in the U.S.A. of lending on security collateral and the causes of the collapse of the system in 1929 are clearly indicated and the recent tendency on the European continent to place savings on deposit with commercial banks rather than to invest them directly, is pointed out. One remarkable tendency has been recently noticed in banking statistics, *viz.*, contraction of commercial credits and expansion of investment in Government securities. This development is illustrated and explained. The account of changes in the money rates prevailing in various countries, makes interesting reading. A study of the relevant facts shows that in many countries " there was a fairly steady decline in discount and interest rates from 1929 to 1933, with an interruption during the financial crisis. Short-money rates fell much more than long term rates, and industrial bonds reacted more slowly than Government bonds." India cannot be expected to figure prominently in an account relating to changes in conditions in the world of banking. We have, however, a brief summary of the banking statistics of this country and a brief introductory note

explaining our system. We have no hesitation in strongly commending the volume under review to the attention of students of banking in India.

V. G. K.

AN INTRODUCTION TO MODERN COMMERCE, Edited by T. Hunter Donald, M.A., B.Sc. Published by Sir Isaac Pitman & Sons, Ltd., London. Fourth Edition. Pages 192. viii. Price 3s.

As the title of the book suggests, the study is only an introduction to the wide field of trade and commerce with particular reference to Great Britain. The whole study is divided into nine sections; and a glance at the list of contents shows the extent of the wide field covered. The following items deserve special mention:—

> Different forms of money; How coins are made; The conduct of business by an Individual, a Firm, or a Company; The usefulness of Banks; The business of the Bank of England; The Post Office; Telegraphs, Telephones, Wireless, and Air Mails; Caravans, Canals, Railways, and Motor Vans; A great Atlantic Steamship Line; Taxation and Trade; Business at a Custom House; Commerce and Comfort; Lloyd's; The Board of Trade and the Ministry of Transport; the Nation's Balance Sheet and the National Debt; "Money makes Money"; Insurance: Fire and Life; The story of the Co-operative Movement; How goods are sold; Advertising; Importers and Exporters; Why Britain is a Commercial Country; Britain's Markets—Foreign and Colonial; Employers' Federations and Trade Unions.

The study of the subject, though of an elementary kind, is full of interesting details which largely assist in establishing a sort of personal contact with the reader. The contact is made still more personal by the inclusion of maps, diagrams and pictures about 70 in number, all of which leave a lasting impression on the mind of the reader.

The editor deserves to be congratulated for having compiled a mass of information on so wide a field as is covered by the book; and more so for having completed the task in a language and style admirably suited to the needs of beginners.

The book will, it is hoped, serve as a very good introduction to the study of modern commerce, and the students of commerce in the High School and Intermediate classes are likely to profit by its perusal. The utility of the book would, of course, be greatly enhanced for the Indian students, if the editor were to include parallel information bearing upon Indian conditions.

B. S. AGARWALA

THE INDIAN MONEY MARKET, by Professor Krishna Kumar Sharma, M.A., B. Com., Professor of Economics and Commerce, Sanatan Dharma College, Cawnpore, with a Foreword by Prof. Radha Kamal Mukerjee, M.A., Ph.D., P.R.S., Head of the Department of Economics and Sociology, Lucknow University. Pages 292+iv. Price Rs. 2-8-0.

In this book Prof. Sharma has discussed the theoretical basis of the monetary operations in organised markets, and conveyed a vivid impression of the actual working of the various constituents of the money market.

Having explained the terms 'money market' and 'credit' and their functions, the deficiencies of the present money market and the absence of industrial banking facilities, Prof. Sharma proceeds to provide a chronological survey of the Indian Banking System from 1770 to date. The causes responsible for the slow development of banking in India are carefully set forth, and the shortcomings of the Imperial Bank are described in some detail. A very forceful plea is made for linking up indigenous bankers to the modern banking system.

A careful perusal of the chapter on Co-operative Movement gives an idea of the defects in the present system, their causes, and their remedies. Complaints against the Imperial Bank by the co-operative societies and their demands are presented in a very convincing manner. The author pins his faith to the movement for the future development of the country. the appropriateness of which can well be questioned.

In Chapter VII, the present position of Land Mortgage Banks is considered. Considerable space is devoted to new questions, such as, money-lenders' co-operation and the disarming of mahajans' opposition. The author justly criticises the delegation of certain functions of the Land Mortgage Banks to the Reserve Bank.

The book throws sufficient light upon the Managing Agency Systems, Bill Market, Regulations of Banking and Law and Practice of Negotiable Instruments, as also on the history and working of the Indian currency and exchange. A study of the systems of Industrial Banking in countries like Germany, Belgium, France, Switzerland, Italy, England, Ireland, and Japan discloses some of the outstanding shortcomings in the Indian system. The danger of financing foreign trade solely by means of foreign concerns is pointed out, and an account of the recent proposals of rationalising the exchange banking operations is also given. The investment habit of the Indians is carefully scrutinized, and the causes of its slow growth are detailed. Some suggestions for promoting the thrift habit are also made.

The Reserve Bank of India Bill is dealt with in some detail. Ample light is thrown upon the powers of the Governor-General, the rupee and sterling ratio, the state versus share-holders' bank, and the relations between the Bank and other bankers. The author is for the State Bank and has criticized the present scheme. He advocates devaluation. Arguments against devaluation are logically refuted.

The book finishes with an appendix on the Imperial Bank of India Amendment Act of 1934.

On the whole, the book covers no untilled ground; but the treatment of the subject is exhaustive, thoughtful and suggestive. The discussions are marked with a keen penetrating insight. The book is a notable addition to the literature on Indian Economics, and can very well be recommended as a suitable book for post-graduate and commerce students.

B. S. AGARWALA

A SURVEY OF THE MARKETING OF FRUIT IN POONA, by D. R. Gadgil, M.A., M. Litt. (Cantab.), and V. R. Gadgil, B. Ag. (Bom.), M.Sc. (Calif.). Publication No. 3 of the Gokhale Institute of Politics and Economics, First Edition, 1933. Pages 184, viii, Demy. Price Rs. 2-8-0.

The book is the outcome of a joint research in the methods of marketing of fruits in Poona. Nearly two years were spent—one in compiling the material, and the other in writing the book. The enquiry was personal, and visits to some 20 fruit-growing areas were undertaken. The enquiry covered twelve *talukas* in the Poona district, the area under fruits being about 6,637 acres. The average size of the holdings was found to be small, orchards of five acres being the dominant class. Facilities for irrigation are said to be the limiting factor.

In estimating the volume of production, the import of fruits into Poona city is taken as the basis. Half-hearted as the attempt is, it has failed; but the difficulties encountered were considerable. The details about seasonability are equally disappointing in their bearing on prices in the absence of reliable price statistics. Holidays are said to influence prices considerably, though only temporarily. No use seems to have been made of the information contained in Table X.

In Chapter III, the marketing organisation of fruits in Poona district is outlined, and the various agencies through which the fruit passes on its way to the consumer are described in great detail. There are the *khotidars* or pre-harvest contractors, a highly specialised group of local merchants, who buy standing crops and free the small growers of all natural risks, besides making liberal advances of money to the latter on request. Then come the *hundekars*, the forwarding agents, whose activities are almost wholly confined to rail transport—to the booking of fruits and loading thereof in the railway vans at the station. An alternative is often found in the local station master in the case of smaller stations in the district. In the city wholesale market, the *dalals*, or commission salesmen, figure most prominently. These dispose of fruits by auction, and constitute an indispensable link in the marketing chain. The utter helplessness of the small grower, who can do nothing without their help, is regrettable.

The marketing organisation at Bombay is also examined. The wholesale market for all important fruits is the Crawford Market, where all supplies from Poona are sent through the *hundekari*. The produce is invariably disposed of by secret auction in unpacked lots, a package or two being exhibited as representing quality. The Bombay salesmen are organised in a body called the "Bombay Crawford Market Fruit and Vegetable Merchants' Association," the object being to eliminate unfair competition among themselves. A noteworthy feature is the availability of cold-storage facilities in Bombay, the use of which is at present mainly confined to the storage of costly fruits from Northern India, or of those imported from abroad.

The wholesaler does not figure in either the Bombay or the Poona market, except in the case of unripe fruits like the mangoes or bananas. The retailers—hawkers, stall-holders, etc.,—buy directly from *dalals*, and distribute the produce to consumers. The "jobbers" are a feature of the Crawford Market. They buy a few baskets at a time on the auction floor, and exhibit them for sale to hawkers or consumers in the open space along the passages. Jobbers are forbidden to sell retail.

The question of marketing finance is also briefly tackled. It is curious to note that while the commission salesmen in Bombay borrow at rates varying from 1½ to 3 per cent. per month from the Marwaris, they make large annual advances to *khotidars* most liberally, sometimes even recklessly, and without interest, in order to build up a *clientele* among the country buyers. This ensures a regular fruit supply. The practice also reflects the nature and extent of profits that these *dalals* usually make.

In Chapter IV. the Reay Market of Poona is surveyed. Attention of the municipal authorities is drawn to congestion in uncovered areas; to ill-lighted portions of the main building; to defective washing and cleansing arrangements; and to unregulated traffic at the approaches. Suitable suggestions to remedy these evils are recorded. Attention is also drawn to the Special Market Committee, which because of its having no executive powers, has proved abortive. The municipal bye-laws need some reform in order to vest the Committee with necessary powers. It is further recommended to explore the possibilities for cold-storage, as also for holding a "Growers' Market."

Chapter V is concerned with costs of distribution. That fruits have to bear a very heavy burden of marketing costs is plain enough from the nature of the industry. No elaborate statistical evidence is needed to prove this. Tables XI to XVI appear to have been incoherently tabulated. It is desirable that tabular statements like these should be relegated to the end as appendices, and only summary tables incorporating essential facts be included in the text. Presentation of bulky tables in the text serves no useful purpose; non-statisticians omit these figures with vengeance, while statisticians in their endeavour to digest the contents are led away, for the time being, from the main current of thought. Here the main object is to correlate the percentage of distribution costs to the sale price; the purpose is evidently best served by presenting only the percentage figures in a summary form. Similar remarks apply to Tables 6 to 10.

Transport costs and transportation policy are examined from a theoretical standpoint in Chapter VI. Under the sub-head '*Railway facilities*,' the defects of railway service are pointed out. Of these, the diversity of gauges is non-remediable. This results in needless transhipment of, and delay and damage to fruit. Provision for refrigeration facilities is another. This may not be possible so long as consignments are small; but the possibilities of "pony refrigerator" are well worth trying. The third is provision of fruit vans with proper shelves, to which the Fruit Growers' Association has rightly drawn the attention of railway authorities, who are, it is stated, endeavouring to remove the grievance.

The writers seem to have made a scapegoat of the railways in their attempt to find fault with the method of differential charging; yet no attempt has been made to find out 'what constitutes a fair charge to be borne by the friut traffic.' The unsympathetic attitude of the railways is certainly to be deplored and must be condemned; but to say that 'there is no fixity of principles in the railway rate policy' is to overshoot the mark, and is not warranted by the facts presented. It would be well to remember that road hauliers have no principles and no scruples whatsoever; they are free to pick and choose and even to refuse non-paying traffic; their highway is ready-made for them at the general taxpayers' cost; and it is questionable whether their contributions in the form of petrol tax and license fees are even sufficient to cover the cost of road maintenance

and repairs in respect of the damage that their vehicles occasion to the road surface. The total cost of road transport is not merely the actual freight rate charged by the carriers, but must also include a portion of the interest on capital invested and the annual costs of maintenance and repair, after having made due allowance for the socialistic uses of the roads. The position of the railways is less favourable; they have to build and maintain their track at enormous cost themselves; they are obliged by law to carry all traffic with but few exceptions; and above all it is difficult for them to compete under conditions of unfair subsidisation with the unregulated motor carriers. Facts such as these should have been considered before pronouncing a judgment of the railways *ad hoc*. The authors themselves admit that the rates charged by motor hauliers for fruit traffic are very low in that they look upon these receipts as a sort of side income, their main receipts coming from the passenger traffic. What the true economic costs of road transport for fruit, or for similar bulky commodities of low value would be, is not stated in the report; nor is any attempt made to essay it. It is true that the fruit grower is getting both cheaper and better service as a result of cut-throat competition among the road and rail carriers at certain points; but whether this ensures cheaper service for society on the whole is still an open question. The taxpayer is taxed twice—once to provide interest on railway capital invested, and secondly to subsidise the road services—only to provide duplicate services at competitive points. This is national waste—a point well worth considering in arriving at an economic division of traffic among the two competing carriers.

The case of bullock carts is discussed as an interesting corollary: but the possibilities for the use of pneumatic tyres and the widening of the scope of carts in consequence, have perhaps escaped the notice of the writers.

Table XVIII apparently needs some further calculation before it can be said to have served any useful purpose.

The various stages in the preparation of fruit for the market are outlined in Chapter VII. The authors have done a service by pointing out the shortcomings in fruit gardening. Orchards are planted haphazardly; the practice of thinning the crops is unknown; and the produce is seldom classified and packed according to fixed standards. In most instances the produce is a mixed lot and is generally "overtopped." The bulk of the demand is for cheap and bulky fruit from the poor classes. Present consumption of fruits is notoriously too low, the extent of which has yet to be ascertained. The authors rightly insist on "Standardisation." This will not only make for definiteness in advertising and publicity, but is also likely to react upon the methods of production. Any action to stop "overtopping" must needs be concerted, and supplemented by legislation so as to enforce standard grades on a national basis. The move towards reform must also mean the standardisation of packing; but real reform can only be possible when the quality of fruit is improved, and when large quantities of it can be handled in well-equipped packing sheds.

In the last chapter, which is mostly a repetition of what has gone before, the main conclusions are brought together, and recommendations are made. To eliminate the forwarding agent, as also to determine on a few salesmen to whom produce should be sent, and to supply marketing intelligence to its members, it is recommended to establish "Bulking and

Despatching Societies"; while to regularise grading and packing, the Central Packing Stations are considered desirable. The latter task is beset with difficulties, to overcome which a simplified system of grading and packing through the agency of the Agricultural Department is suggested. To meet the needs of the small growers, an alternative method of developing wholesale country markets is advocated. This would enable the small producer to fetch better prices in the producing area itself than those obtained from the pre-harvest contractors, or through the agency of *dalals* in distant markets. The successful establishment of such markets will eliminate *khotidars*. In cities, the position of the commission salesmen is one of great strength. The problem is how to limit his strength. To achieve this object, it is suggested to do away with secret auctions, to limit his activities to proper function alone, and to compel him to submit returns of sales accounts to consigners. Regulation by itself will not reduce the strength of the salesmen: it will merely restrict the possibility of their abusing that strength in certain directions. The strength of the *dalals* lies in the weakness of the growers, and unless the latter are efficiently organised to look after their own interests, regulation by itself would be of little avail, and even evaded with impunity.

The utility of a study of this kind is beyond question. This is the first detailed study in the marketing of fruits, and the Gokhale Institute deserves all praise for having undertaken the publication of original studies such as this. The marketing cost data is said to be fairly reliable, the information being compiled from about 100 sales accounts. The authors rightly regret the unsympathetic attitude of the railway authorities in that they were unwilling to give access to the statistical material at their head offices. They also express their dissatisfaction over the comparative lack of reliable statistics throughout their enquiry.

While reading the book, it was persistently felt that its volume could most advantageously be reduced to about one-half the present without in any way sacrificing the utility of the study, by presenting the facts in a simplified form and avoiding all unnecessary repetition. The cost of the book could thus be lowered to about Rs. 1-8. This would have certainly encouraged a wider circulation and sale of the book.

B. S. AGARWALA

THE GOLD EXCHANGE STANDARD IN THE PHILIPPINES, by George F. Lutheringer, Published by Princeton University Press, New Jersey, U.S.A. Pages 291. $3.

Professor Kemmerer in his foreword to this monograph by Mr. George F. Lutheringer says that "the distinguishing feature of the Philippine Gold Standard is that it is designed to function automatically without management or control by a central bank of issue. In the Philippines the only mandatory form of redemption is in drafts, and in operation the currency system has closely approximated a pure gold exchange standard." To the student of money this distinctive experience extending over thirty years must be illuminating.

Mr. Lutheringer of the Princeton University has given serious attention to the accumulation of materials for his very interesting study and his study is both historical and analytic. Mr. Lutheringer starts by giving

the origin of the Gold Standard Act of 1903 which provided a mechanism for maintaining the silver peso with a theoretical gold peso consisting of 12·9 grains of gold ·900 fine a unit—precisely half that of the dollar at that time. This was accomplished by the establishment of a Gold Standard Fund which consisted of silver coin held in the Philippine Treasury and dollar deposits in banks in the United States. At the same time a Silver Certificate Reserve which was to consist of silver pesos against which certificates had been issued was established to maintain the parity of the silver certificates with the silver peso.

Indian students of Currency must be very familiar with the basic principles of the gold exchange standard which are summarised by Mr. Lutheringer thus:

(1) The mandatory sale of drafts at fixed rates representing the gold points of the theoretical gold peso.

(2) The automatic contraction of the monetary circulation by the full amount of the drafts on the United States and the retention of these pesos in the Gold Standard Fund until paid out to meet drafts sold on Manilla (Philippines).

Mr. Lutheringer is of opinion that the breakdown of the gold Exchange Standard in 1919 in the Philippines was due not to the inherent defects of the Exchange Standard nor even to the revision of the Currency Law of 1918 which aimed at the combination of the Gold Standard Fund and the Silver Certificate Reserve, but to the brazen violation of the fundamental principles on which the Exchange Standard was based. Mr. Lutheringer's criticism of the Philippine authorities is strong, but is probably a very reasonable criticism, as after all any inefficiency in the management of the currency affects large bodies of individuals.

In 1922 attempts were made to have a comprehensive revision of the currency law and the result was the re-establishment of a separate Gold Standard Fund and Treasury Certificate Fund. It was also provided that the Treasury Certificate Fund might at first consist partly of bank deposits in the United States, but eventually must consist of silver pesos and half pesos.

As a result of the experience of a decade Mr. Lutheringer is of the view that the re-adoption of certain of the features of the 1903 law was unwise. He believes that the two reserves must be combined into a single reserve, and that excessive accumulation in the reserves must be reduced in spite of the possible reactions of the application of the Philippines Independence Act to the Philippines at a very early date. Every sane thinker on currency questions would agree with Mr. Lutheringer in his appeal that the essential thing is the strict observance of the fundamental principles which have been common to all exchange standards.

The book must be of interest to the students of Indian Currency both from historical and theoretical points of view and the reviewer would draw the attention of the Indian Currency authorities and teachers of Economics in the Indian Universities to the very useful data so ably accumulated by Mr. Lutheringer. Many of the ideas and practices in the matter of the Currency in the Philippines seem to have a close family resemblance to the experiences or experiments made in India from time to time and a comparison of notes may yield interesting results on the psychology of currency management in the two countries.

The book is well got up and is priced three dollars—not too high a price to pay for information about a region not very well known to the students of Indian Currency.

S. V. Ayyar

Department of Economics,
The University, Dacca, India.
[The 'Hermitage,'
Ramna, Dacca.]

An Introduction to Economic Theory, by S. N. Sen and S. K. Das. Modern Book Agency, Calcutta. Pages 616.

It cannot be said that the attempt to supply Indian students of economics with indigenous text-books is other than commendable. Even if the Indian books did no more than present a summarised compendium of several views of advanced scholars in other countries they would be rendering a service to the students of economics, who have inadequate opportunities of referring to the large volume of periodicals and current literature. It is, however, necessary that the Indian author's work should bear the stamp of a well considered system and his treatment of foreign scholars' views must be not only descriptive but critical. It is out of such work that in course of time a genuine school of economists will be born in India.

The book under review satisfies most of the abovenoted requirements. Besides giving in a systematic form the various contents of an ordinary text-book the authors have made a very commendable attempt at incorporating in their book some of the latter day theories on several important topics. The theories of credit, trade cycles and purchasing power parity, as also the recent developments of monetary theory are well handled. On the whole an attempt has been made to proceed on the basis of widely accepted notions and students will derive immense benefit by an intensive study of this book.

It is no disparagement to say that the authors have shown a special desire to keep very close to Marshall and generally to the English classical school. In a text-book such an attitude has some advantages. But it is doubtful whether we should now leave our students in the belief that such theories as the Malthusian Law of Population and the Ricardian theory of rent are substantially correct, without making it clear that they have only a relative and not a universal significance. The time has arrived to rewrite these sections without the handicap of a sentimental attachment that the English economists rightly felt for their illustrious predecessors. A sociological outlook on population and the explanation of rent in terms of the general equilibrium theory of value are important advances in economic theory which should form the basic substance of the treatment of these topics in our text-books. On the whole a more objective and eclectic view than is induced by too much concentration on English books is the need of the times in India.

The book is ably written and should serve a very useful purpose in the teaching and learning of economics in India. It is to be hoped that on certain points the authors will exercise a little more decisive individuality

in the production of future editions. The very vague definition of economics given by Marshall—Political Economy is a study of man in the ordinary business of life, etc.,—has long been in need of supersession. On page 74 the authors say that 'every creation of new utility is not production. The thing produced must have an exchange value.' In the first part of this statement while the word production is used in a technical sense the words creation and utility are used in their popular senses. In fact technically utilities are exchangeable utilities, otherwise they have no interest for the economist at all. The authors have on the whole taken a correct view of the function of the enterpriser. though it is doubtful whether such a mechanical function as the so-called distributive function should figure side by side with organic functions such as planning, execution and risk-bearing. It is not clear whether apart from tactical underselling the monopolist can ever produce cheaper than the competitive producer. The advantages of increasing returns are well secured in competitive production and monopolies are not free from the advertising mania. The views of the authors with regard to protection are far from progressive. Even in England it is now realised that the object of economic policy is not the cheapness of individual products but the most productive employment of a nation's resources. It has been found that a certain deliberate ordering of external trade is essential to bring about this end. 'Protection has nothing to recommend it' is a statement which will not go without a challenge in any country in the world of today. We miss in an otherwise comprehensive work a satisfactory treatment of the group of problems arising out of a new consciousness of social solidarity. Socialism and connected problems should receive greater attention in a later edition.

The authors have succeeded in producing a very readable and useful book and we hope that students will benefit by its reading.

D. G. KARVE

A SOCIO-ECONOMIC SURVEY OF THE RAIGAM KORALE, STUDY I, by Wilmot Perera, printed by W. E. Bastin & Co., Colombo. pages 1—27. Price 50 cents.

The title of this pamphlet is a very ambitious one and the author fully deserves all the credit and all the leniency due to a pioneer. Dwelling at length on the necessity for economic research, he quotes from the Rural Agricultural Commission Report about the duties of Universities in the matter of economic research, and instances the Roosevelt Commission on Country Life and the Oxford University Institute for Research in Agricultral Economics, to show how in advanced countries Governments subsidise and encourage such inquiries and research. Mr. Perera very frankly states that he does "not claim any scientific precision for this paper, not having been trained in developing statistical method as applied to the social sciences."

It is an extensive study based mostly on data contained in Government reports, and the area dealt with is Raigam Korale consisting of 167 villages. Horana is the chief town twelve miles from the sea and twenty-two miles from Colombo. The rainfall is 142 inches and from the details given by Mr. Perera, the area appears to be very fertile and promising.

There are four chapters on Historical Survey, Agrarian Problems matters Educational and Health. Surely, rural life has many other fundamental problems, and we shall hope that very shortly Mr. Perera will bloom into a first class investigator on matters economic, and give us the privilege of knowing more and much more of rural life in Ceylon.

The Ceylon Government cannot do better in this matter than by giving every possible facility to Mr. Perera to specialise in his hobby and thus prove of invaluable use to the country.

S. Kesava Iyengar

Problems of Rural Ceylon, by Wilmot Perera. Pages 1—34: with an Introduction by D. S. Senanayake, Minister of Agriculture and Lands. Price not fixed. 1932.

A series of articles in *The Daily Mail* on problems of rural Ceylon have been republished by Mr. Wilmot Perera in a pamphlet form, "immediate objectives" rather than "ultimate goals" being the motive for such publication. It cannot be said that the author has gone into the subject with any scientific method, but as a first publication on this vital subject in Ceylon the pamphlet is very valuable. In the words of the Minister of Agriculture and Lands, this pamphlet "throws a good deal of light into many a dark corner of village life." Also, it is a matter for congratulation that some concrete work is being done in the matter of rural reconstruction although the task of collection of economic data is still to be taken in hand. The author evidently takes very great interest in the Rural Reconstruction Society being worked in the area.

Mr. Perera's papers touch the beginning of the beginning: Ceylon is still far behind the Punjab in this respect, but we shall hope that with pioneers like Mr. Perera, Ceylon will soon attempt to come forward, and in view of the small area, lead India in certain methods of investigation and schemes of social amelioration.

S. Kesava Iyengar

Review of World Trade, 1932.

This volume has been published by the Economic Intelligence Service of the League of Nations. It sets out a Review of World Trade for 1932 and gives numerous tables and graphic illustrations.

The indices of trade computed in this publication indicate the rapid and increasing contraction in the volume of world trade since 1929. From the study of figures, the probable cause of this appears to be the movement of the centre of gravity of the trade depression from debtor to creditor countries on account of the enormous increase in trade barriers.

A study of the trade figures of certain countries shows that although self-sufficiency has increased in the case of those countries, it has been mostly at the cost of a few other countries, both industrial as well as non-industrial.

One of the most important facts pointed out in the volume is the weakening of the competitive power of the United States manufacturing industry.

Shankar Lal Agrawal

QUESTIONS FOR PRACTICE IN ECONOMICS, by I. B. Saksena, ex-Professor of Economics, Canning College, Lucknow. Published by The Universal Literature Co., Lucknow. Pages 73.

In collecting questions in this booklet from various sources for the use of the Intermediate students, Prof. Saksena seems to have taken great pains. He gives all the questions that have been set from year to year till 1932 for the Intermediate examination in Economics of the Allahabad Board, reproduces several important questions selected from Elementary Economics by Carver-Carmichael which once was prescribed as a text-book for the Intermediate classes, and includes in the long list a few of his own which, as he says, he set to his students for practice in class and at home. The arrangement of the questions is excellent, providing to the student an easy reference and also an admirable probability of forecasting the coming paper.

Though in the arrangement questions have sometimes been repeated, it is only to give the student an idea of how the same questions can be set in altogether a different form and language.

While recommending the booklet to the Intermediate students, we might suggest here that its next edition would greatly be improved, if it were brought up-to-date and also if it included questions that have been set in the Intermediate examination of other Boards and Universities.

SHANKAR LAL AGRAWAL

ANALYTICAL ELEMENTARY ECONOMICS, by I. B. Saksena, ex-Professor of Economics, Canning College, Lucknow. Published by The Universal Literature Co., Lucknow. Pages 249. Price Rs. 2.

The book under review is prepared with the help of three books. Moreland's, Penson's and Carver-Carmichael's books on Economics which were once used as text-books by the Intermediate classes of U. P. The work undoubtedly follows the prescribed syllabus faithfully and is intended to save much of the student's time wasted otherwise in consulting several books for the preparation of his Intermediate examination; still it hardly presents the author's thoughtful deliberations on the subject. For instance, on page 81 he gives two numerical examples to illustrate the Law of Diminishing returns, the first one having been taken from Penson and the other from Carver-Carmichael; both these examples are objectionable and misleading. The development of thought in laying out the first principles of Economics is neither scientific and explanatory, nor gradual. The Introductory part of the book is more or less in the form of notes, and the Law of Diminishing Utility which is important from the point of view of the Intermediate class and should, therefore, have been dealt with at length, is too briefly given to enable the readers to understand and appreciate it thoroughly. Though the treatment of the book, on the whole, cannot be said to be steadily progressing and pleasantly stimulating, yet it possesses the merit of containing numerous figures, tables, diagrams and charts with special reference to familiar Indian conditions, which very much offsets the drawbacks and disadvantages. The note on practical work in the Appendix given at the end of the book greatly adds to the value of the book.

The author's attempt to write a book of this kind is certainly commendable. We hope the students of the Intermediate classes will derive benefit from it by making a proper use of it.

SHANKAR LAL AGRAWAL

QUESTION PAPERS IN INTERMEDIATE ECONOMICS WITH HINTS ON MODELLING ANSWERS, by Prof. I. B. Saksena. Published by The Universal Literature Company, Lucknow, Pages 106.

This booklet covers all questions that have been set for the Intermediate Examination from 1925 to 1932. Only hints and not complete answers to questions are given. Some of them are really excellent, but a few of them are open to criticism. For instance, 'utility is the satisfaction we derive......' can hardly be said to be correct. Similarly, 'when price has fallen sufficiently low so that all those who want it can have it, satiety level is reached......' is misleading.

Except for such faulty statements as these, this little volume is useful to the Intermediate students, provided that they read it with care.

SHANKAR LAL AGRAWAL

ELEMENTARY ECONOMICS FOR INDIAN READERS, VOL. II, by R. K. Luthera, Professor, S. D. College, Lahore, with a foreword by Prof. Brij Narain. Published by The Students' Popular Depôt, Lahore. Pages 622.

This volume is divided into five parts dealing with 'Exchange or The Theory of Value,' 'Distribution,' 'Mechanism of Exchange,' 'Public Finance' and 'Indian Administration' respectively. In each part, Prof. Luthera widely illustrates his conclusions in simple and clear language with reference to conditions existing in this country, so that it provides a very interesting reading even to the beginner. Although he does not frequently quote eminent authors only to make confusion worse confounded, his treatment of the general principles of Economics is thorough, scientific, logical and comprehensible. Wherever necessary, he gives alternative mathematical proofs also of economic truths.

The first part of this volume is very well-written, while the other parts are not so elaborate. Still this volume, on the whole, is much better than the first volume. To the students of the Intermediate class, the two volumes of Prof. Luthera should prove self-sufficient and highly useful.

The printing and the get-up of the book are satisfactory, and misprints are hardly to be found.

We congratulate the author on having brought out such a nice book for the good of the students as well as the general readers.

SHANKAR LAL AGRAWAL

STATISTICAL YEAR-BOOK OF THE LEAGUE OF NATIONS, 1932-33.

As in previous years, this year-book is brought out by the League of Nations Secretariat. Its object is to give an international synopsis of the

most important economic, financial, demographic and social phenomena. Some of the statistics which it contains go down to the first quarter of 1933.

The value of this volume is greatly enhanced by the addition of such tables as those on Public Finance, recent monetary measures adopted in various countries and a few other topics. It has been clearly set out in tables how monetary events during recent years have influenced exchange rates and world trade.

Numerous tables dealing with Production reveal several interesting facts such as a heavy fall in industrial production in most countries, and a fairly stable level of production of cereals and other crude foodstuffs.

In the field of vital statistics, special interest attaches to the censuses of 1930 and 1931 for certain countries, the results of which are shown by age groups and by professional groups.

To facilitate comparison, most of the figures in the year-book have been reduced to common units of measurement or value. The year-book also contains tables of coefficients of conversion for weights, measures and currencies, several specially prepared geographical maps, and a double alphabetical index by subjects and countries.

SHANKAR LAL AGRAWAL

THE SYDENHAM COLLEGE MAGAZINE—SPECIAL COMING OF AGE NUMBER—MARCH 1935.

This is a special number of the College Magazine containing a number of interesting articles, one of the most interesting of them being the brief review of the working of the college for the past twenty-one years. The college was started in October 1913, when his Excellency Lord Willingdon was Governor of Bombay.

The idea of starting a Faculty of Commerce in the Bombay University had already been mooted in 1909 by Lord Sydenham. This idea took concrete shape, largely due to the public spirit and munificence of many citizens of Bombay, chief among whom are Sir Jugmohandas Vurjivandas who gave Rs. 2,25,000 to the institution and Sir Chinubhai Madhavlal who donated Rs. 1,00,000 for the same purpose. This nucleus was strengthened by a further large donation from the trustees of N. M. Wadia Charities who placed at the disposal of the institution securities yielding an annual income of Rs. 4,500. Other annual contributions were also forthcoming from various bodies such as the Bombay Chamber of Commerce, The Bombay Millowners' Association, the Indian Merchants' Chamber, Bombay, The Bombay Native Piece-goods Merchants' Association and the Ahmedabad Millowners' Association.

On 22nd October, 1913, the college began working and thus Bombay became the first city in India to have a University College of Commerce of its own. In 1916 the name of the college was changed to Sydenham's College of Commerce and Economics as a result of the acceptance by the Government of a gift of Rs. 1,85,000 from the Lord Sydenham Memorial Committee.

This College prepares students not only for the B.Com., and M.Com. Degrees of the Bombay University but also for the examinations of the Institute of Actuaries, London.

Eminent men like Mr. K. Subramania Iyer, Mr. R. M. Joshi, Mr. Percy Anstey, Mr. H. R. Burnett-Hurst, Mr. M. L. Tannen and Mr. M. J. Antia have been on the staff and the college has been able to do splendid work sending out every year students who have won for themselves positions of trust and responsibility in the world of Commerce and Banking.

Nowhere is it more true to say that the success and stability of an institution depends on the intelligence and character of the men who man it than in the realm of Commerce and Industry. The better the type of men sent out from institutions of this kind the greater will be the progress of the Commerce and Industry of the land, which absorb them into their service. Everyone who believes in the need for increasing and developing the commerce and industry of this country must agree with us when we say 'May this College grow from strength to strength and let us have more of such colleges!'

B. V. NARAYANASWAMY

THE BOARD OF ECONOMIC INQUIRY, PUNJAB, PUBLICATION NO. 40. FAMILY BUDGETS, 1932-33, OF FOUR TENANT-CULTIVATORS IN THE LYALLPUR DISTRICT, by Sardar Kartar Singh, 1936. Pages 31. Price As. 6.

The four family budgets analysed in this brochure deal with three Arain and one Jat Muslim tenants on a Government Farm in the Lyallpur district. So far as the writer is aware, no authentic information is available in India about the family budgets of cultivators. Sardar Kartar Singh and the Board of Economic Inquiry, therefore, deserve special thanks of the reading public for giving an opportunity of knowing definitely and reliably how the agriculturists in the Punjab spend their income. It is true that the data so far accumulated, is so meagre that no generalisations are possible, yet a beginning has been made and we hope the Board will continue this very instructive investigation.

B. G. B.

THE BOARD OF ECONOMIC INQUIRY, PUNJAB, VILLAGE SURVEY NO. 6, by Anchal Dass. Pages 270. Price Rs. 3.

This is the sixth of the series of Village Surveys conducted by the Board of Economic Inquiry, Punjab. The village surveyed is named Gajja Chak and is situated in the Gujranwala district of the Punjab. We are told that Gajja Chak is a small village of forty-three households, situated about eight miles to the north-west of Gujranwala city with the nearest railway station at Rahwali two miles away.

The survey is divided into sixteen chapters all of them being replete with useful information about the village. It is entirely a Muslim village and as observed by the author is rather backward in its methods of cultivation.

By conducting these surveys the Board of Economic Inquiry, Punjab, is doing yeoman's service to the cause of Rural Economy in India. It is these surveys which when coordinated will give us reliable data about rural life instead of the vague generalisations that we so often come across in books dealing with rural life. Mr. Anchal Dass has done his work with great thoroughness and exactitude, and deserves the thanks of all those interested in the study of Rural Economic Life in this country.

B. G. B.

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THE OLD POLITICAL ECONOMY CLUB OF LONDON[1]

BY

JAMES BONAR, M.A., (Glas. & Oxon.), D.Litt. (Cantab.), LLd. (Glas.), F.B.A.

We ourselves, the Old Political Economy Club of the Tower Hamlets, a wellnigh forgotten name, are 55 years of age, born 1880, and (except for this meritorious longevity) do not think of ourselves less highly than we ought to think.

But the Old Political Economy Club of London was born in 1821 and is living yet in its hundred and fourteenth year, beyond us in age—I dare not say in the eminence of its members.

I am going to tell you something about that London Club, from authentic sources, for it has kept up from the first a fair collection of records.

First of all, since we ourselves bear the respectable name of Adam Smith and are by some supposed to read nothing but his writings, I may mention to you in passing a still earlier Political Economy Club in which our hero himself actually took part. It is said to have been founded in the forties of the 18th century (see Rae, 88) by a famous Glasgow merchant, Andrew Cochrare Provost during the Rebellion of 1745, and acknowledged to have played an honourable part in those troublous days (see Carlyle of Inveresk quoted by Rae). He was intimate with Adam Smith and the *Wealth of Nations* is said to owe much to him for facts and illustrations.

1 Presidential Address to the Adam Smith Club at the Friends' House, Euston Road, London, 15th October, 1935.

We are told that Cochrare intended his Club to study the nature and principles of trade in all its branches, and exchange ideas on that subject.

Adam Smith's biographer, John Rae, with the usual bids of a biographer, calls Cochrare's club the first Political Economy Club in the world. Henry Higgs points out that in the days of John Law, say in the Twenties, a Political Economy Club was founded in Paris by Abbe Alary. We must not think less of Cochrare because he came after Alary, or less of Tooke because London's Club came after both these others. So long as science allows time to have any meaning (and science seems bent on explaining it away), we must adopt the chronological order for those clubs, given by Alexander Carlyle of Inveresk, John Rae of London, and Mr. Henry Higgs, author of the "Physiocrats," published in 1897.

Mr. Higgs, once an occasional attender[2] of the Tower Hamlets Adam Smith Club, happens also to be the biographer, the officially appointed biographer of the Old Political Economy Club of London, and for the benefit of my audience I am going to draw extensively on his Centenary volume on the subject, published for the Club in 1921. If your President had not been called to Canada in 1907, he was to have been himself charged with the honourable task. But Mr. Higgs has carved it out very much better than he could have done.

I mean to draw on his stores with the confidence of old friendship and fellow-membership.

The Old Political Economy Club (1) was really founded after a Dinner Party at the house of S. C. Holland, a partner in Barings on 31st January, 1820. Thomas Tooke had just been the moving force which brought about the famous Merchants' Petition in favour of Free Trade which was read and discussed in Parliament in June, 1820 (see Leone Levi, *History of British Commerce*, 1872, p. 154). He was angry at the attempts of certain politicians to perpetuate the scarcity and high prices of the War and was in favour of a reform of the whole system "which was encumbered, disfigured and shackled by innumerable vexatious, obstructive, and impolitic restrictions that had come down to us from periods long antecedent to the War" (Higgs, Preface X). We are so accustomed to these phrases that we sometimes fail to realize how true they were then and how true now in the year 1935.

2 Honorary Vice-President, too, by our records.

Well, Tooke wanted to form a club, a free trade club, which would give greater liberty of opinion than even dinners, where at the best you must not hurt the feelings of your host. And the Club was founded formally on 18th April, 1821. (Higgs, *ib.*, XI.) (2) The original members were declared (on April 30th) to be:—Holland, Torrens, Malthus, Ricardo, Mushet, James Mill, Tooke, Entwistle, Warburton, Larpent, Brown, Maberly, Douglas, Norman, Cowell, Grote, Simpson and Mitchel. Malthus was for some time the only Professor, and the majority were merchants. The Rules (3) limited the members to 30, to be proposed by members, with a month's notice chosen by ballot, by a two-thirds majority of those present, paying 5 guineas a year for their dinners, the year meaning December to June, Mr. Grote, treasurer, five guests as a maximum allowed at each meeting, the meetings to be at the Freemasons Tavern. "The members will regard their own mutual instruction and the diffusion among others of just principles of Political Economy as a real and important obligation" (p. 3). "At each meeting three of the members in alphabetical rotation shall be required to propose each some doubt or question on some topic of Political Economy which may be considered by the members during the interval and form the subject of conversation at the next meeting" (3). It was James Mill who drew up these rules, which (and I have not read all[3]) are a little didactical, and have *not* survived intact to the present day.

There was plenty of intellectual activity to be exercised, you will understand not as here after a temperate tea but after a heavy dinner. But I shall show you that at first at least the rules were taken seriously. Here are the three questions proposed (on April 30) for discussion at the next meeting (p. 5): I warn you the "dry part" is coming. You remember that the whole club was devoted to serious studies. Read therefore seriously on p. 5 of Higgs:—

The questions are:

(1) What would be a sufficient counter-vailing duty on Corn? (Such as to balance special burdens here) S. C. Holland.

(2) The quantity of Money being constant, would a general tax upon all commodities in a country raise their prices? Colonel Torrens.[4]

3 One was that the members should watch the Press and correct its mistakes (p. 4), a hard job then.

4 Had been a sailor but was not at sea in economics.

(3) Can there be a general Glut of commodities? Rev. T. R. Malthus.

On the 28th May the 1st question alone was reached. They had had a full meeting including Malthus and Ricardo, Mushet, James Mill, Tooke, J. L. Mallet, Larpent, and Grote, Shaw Lefevre as guest (5, 6).

At the June meeting, there was a smaller attendance. "The Club proceeded to discuss two interesting questions on Political Economy:

1. What would be an efficient counter-vailing duty on Corn?
2. Can there be a Glut of commodities?

This was the question proposed by Malthus who used however the expression General Glut. It was a matter he had discussed in his book 'Political Economy' published in 1820. "The further consideration of the latter (*i.e.*, No. 2) was deferred to the next meeting when the following query by Mr. Ricardo is to be also discussed."[5]

Whether Machinery has a tendency to diminish the demand for labour?" (7).

No strangers were present. The Club adjourned at 11 o'clock to the first Monday in December 1821 (8).

The view of Ricardo had changed on the effect of Machinery; he had come to the conclusion that for some considerable time inventions did diminish the demand for labour. On the other hand he rejected the General Glut towards which his friend was constantly tending.

The debate seems to have been saved, at least in the early meetings, from the risk of all such clubs, domination of a few, silence of the many. The plan of going round all present was sometimes adopted, but not so faithfully as at the Friends' House by our worthy selves.

What I have read to you, about Rules and Subjects and Members, has been a series of extracts from the Minutes of the Club, fortunately preserved from the first, but differing in value one from another. There are cases where nothing but the subject and date are set down. On the whole it has been easily possible for Mr. Higgs to write a continuous history of the Club from the first on the strength of the Minutes.

Happily we can supplement the Minutes or we should never even know what sides were taken and which won.

5 They had a voracious appetite in those days. I have never known more than one discussed in my time.

It was common report that there was never unanimity. This disagreement is not peculiar to political economists. I found a good instance of it among antiquarians and students of languages the other day, and I submit the entire extract emphasizing one underlined phrase that pleases me more than the rest. Mr. Douglas Simpson, librarian of Aberdeen University, in his book on the Historical St. Columba (521—597) writes thus of some fellow labourers: " The early celtic period has been a battleground of the Linguists. *Their capacity for sustained disagreement among themselves* is so phenomenal that the archaeologist is justified in raising his voice amid their clamour in order to invite attention to a mass of vital evidence (monumental remains) the significance of which they have for the most part utterly ignored."

There is nobody more infallible than the expert witness. The Minutes would not tell us if the Club's members were of that type or not.

It seems to me that there are two kinds of infallibility. When it is defence of the member's own opinion, an assertion of his right to use his own judgment, it is not only pardonable but essentially desirable for all the members. My own feeling about a well-known saying of Whewell, the famous head of Trinity, Cambridge, " We are none of us infallible not even the youngest of us " is that it is better inverted, and converted into this one: " We are all of us infallible even the oldest of us "—add to the oldest of us " who ought to know better." If infallibility becomes offence, no longer the idea of the old volunteers defence not defiance, then it is offensive aggression and what we call *bluff* or insolence whereas the defensive is not bluff but *faith*, it may be very humbly put forward, but *faith* in our own conclusions. I prefer the faith and think we should all in this sense be infallible even the oldest of us in the Adam Smith Club.

I said that by the Minutes alone we could not say which kind of infallibility prevailed in the Club of 1821.

We can supplement the Minutes or we should still be under the iron law of silence long after the copyright term. The silence has been broken by two Diaries of members. Is it wrong to print what they could not have printed 100 years ago without breach of contract, a contract understood by everybody? In a private diary, if really meant to be private, a man says what he thinks and it is sometimes very rude and actionable, though in our opinion now it is refreshingly frank and pardonable in the circumstances. I am told there was once a play that held the

stage in London for some months where all the characters spoke out their feelings in full force without the usual reserves of courtesy. And the effect was appalling. The Diarists (Malla and Prevost) who were not on any stage but their own sitting rooms created no sensation for they did not show what they had written. When their posterity repeated it there was more fun than fury. You shall judge for yourselves. Here are two specimens of remarks on fellow members whom I shall call A and B. A's date is 13th January, 1831 (220). A "has great stores of knowledge, an active and enquiring mind, and a considerable writer, but bold, pugnacious, and as great a glutton as ever graced a College Hall. I trust that his digestive powers are as unbounded as his appetite, less restraint of that sort I never saw, but it is true that I do not often come in the way of these monkish *gastronomes*." And again of B:—

"His sallies and exaggerations and astounding and often coarse and sarcastic expressions keep our drowsy members alive when saturated with tavern fare. (Another) has something supercilious in his manner but is nevertheless an agreeable man —social in his habits, and eating and drinking like a man who comes to table exhausted by labour, and indulging too much in these respects considering his delicate health" (268) (April, 1835).

The Diarist quotes Charles Lamb's chapters on 'Sympathies' and then goes on (p. 273, dated April 4, 1836). "My intellectual wardrobe has few whole pieces in it. I am content as Elid with fragments and scattered pieces of truth—hints and glimpses at things. I seldom wait to mature a proposition, but bring it to market, as he says, in the green ear. My friends of the Political Economy Club on the contrary are the Caledonians; their minds are never caught in undress or by glimpses; their stocks of ideas are in perfect order and completeness. You cannot cry halves to anything they find. Between the affirmative and negative there is no borderland with them." And so on, till he clinches it all: "I hardly know therefore how I stayed among them some twelve years. I was originally attracted by the charm of the personal characters of Malthus and Ricardo; and when they were both gone I felt I had no abiding interest there" (273). Personally I welcome this touch of J. L. Mallet. Some of us have felt that charm even through the written pages. Ricardo left us in 1823, Malthus in 1834, Lamb a few days before Malthus.

J. L. Mallet in despite of all those outpourings found it hard to stay away from the Club altogether. His last entry is

dated May 15th, 1837 (273): " Senior opened the discussion. He began by showing, by a minute analysis of the component parts of the cost of manufactured cottons, that any disadvantage, of which he held the Factory Bill to be one, would absorb the profits of the manufacturers or at least a large portion of them. The proportion of fixed to circulating capital was as 4 to 1, so that four-fifths of the manufacturer's capital was absorbed in machinery and buildings; that eight hours of the manual labour of the workmen went to replace the wear and tear and interest of such fixed capital, one hour more to replace the interest on the circulating capital and the 10th hour, only, constituted the profit." So a Ten Hours bill, if wages remained the same would paralyse industry. The attempt to work in Relays had failed (274). Mr. J. L. Mallet's criticism is that the proportions stated must vary according to circumstances and " the attempt to define them with such a degree of accuracy and minuteness is part of the coxcombry (the aggressive infallibility) of the Political Economists." Moreover according to Senior's own statement there could have been no accumulation of capital in Lancashire at all at the time of speaking, which was notoriously not the case.

Chadwick, who was in the Chair, asked Leonard Horner present as a guest (invited by Tooke) to state his opinion. Horner was the most famous of all the early inspectors under the Factory Acts of the time. He showed that some of the best manufacturers in Glasgow and in Lancashire had worked the system of relays with excellent results both physically to the workers and financially to the employers (274-5); the other statements of Senior were derived from interested manufacturers and were full of fallacy.

" Much to Senior's credit " (adds Mallet) " although he seemed to pay attention at the Club to Horner's objections and statements, he afterwards requested Horner to put them in writing in the shape of a letter which he printed with his pamphlet on the Factory Bill, and he there spoke of Horner's opinion and of his services in a very suitable manner " (275 end). Mallet need not have disclaimed being an economist; his argument showed he was a very sensible one, as time and experience have shown.

He might well have quoted the introduction to the Political Economy of no less a person than Malthus himself. Malthus says there (in 1820) " We should fall into a serious error if we were to suppose that any proposition, the practical results of which depend (1) upon the agency of so variable a being as man, and (2) the qualities of so varible a compound as the soil can ever admit of the same kinds of proof, or lead to the same

certain conclusions, as those which relate to figure and number. (*Political Economy*, p. 1). " Whether we advert to the qualities of man or of the earth he is destined to cultivate, we shall be compelled to acknowledge that the science of political economy bears a nearer resemblance to the science of morals and politics than to that of mathematics " (*ib.*, p. 2).

Senior's idea was best known to some of us when we were young men by the severe criticism offered to it by Karl Marx (*Kapital*, 2nd edition, 1872, pp. 215 to 220).

Marx candidly acknowledged that in later life Senior became a hearty supporter of the Factory Acts. Between Mallet's arguments and Senior's conversion we may be well satisfied that no serious damage was done by the idea of the Final Hour's labour as the entire source of profit. (—das der ganze Reingewinn von der letzten Stunde abgeleitet ist) (Marx, 215).

In a country so highly civilized as England even the manufacturers are sometimes disinterested, in spite of the " Materialistic view of History ". It was a manufacturer, *viz.*, the old Peel who made the first Factory Acts (1802) (*Life of Shaftesburry* by Hodder, Vol. I, p. 141, Cassell, 1887). It abolished apprenticeships, really a trade in young children. Peel came up again in 1815 and by 1819 procured a limitation of hours for children and young persons (*ib.*, p. 142). The most critical period of later factory legislation was just the time of this little debate in the Old Political Economy Club in 1837.

Let us speak of our noble selves.

Such a biography as Mr. Higgs has written of the Old Politictal Economy Club would not be possible in our own case, even if we were to forget our awe at the great names constantly occurring in his pages and did our best with our humbler materials. To imitate would be to create self-consciousness; and we must lose that, if we are to arrive at the mind of the meeting in our own way. Our own way is, as you know, to give every member in the order in which Providence happens to have placed him or her for the night, a chance of delivering his or her soul on the subject in hand. I should add delivering it in as few words as possible, for time presses, it always does. Sometimes our papers are too long, rarely those *extempore* remarks. But I cannot remember that we are so often stopped from sheer bashfulness now—gravelled for lack of matter as Shakespeare puts it. There has been usually a feeling that we are not " lying at the catch " for each other, but the speaker can count on our goodwill. It is not always so, in greater assemblies.

It seems to me that the plan of *Circumlocution* has answered

well. We did not always have it, and we older folk can compare this plan with the older. The older may suit better with the ways of our friends, the Friends, for it was, briefly, an appeal to the inspiration of the moment. But it often meant that the most courageous did all the talking, and sometimes there were folk silent that might have talked to our advantage but were afraid. I am inclined to think that this plan of *circumlocution* is one of our most valuable features, and, in conclusion, I strongly recommend you to retain it under other Presidents. It is the more democratic plan; we are not picking out the best speakers and telling the rest go; we are trying to *level up*, in the faith that, while some are better orators than others by nature, *all* have some thing of the orator's power, all can speak out what is in them, if we do not scare them into silence and self-consciousness.

A REVIEW OF GOLD EXPORT FALLACIES

BY

B. P. ADARKAR,

Professor of Economics, Benares Hindu University.

"Students of social sciences must fear popular approval: evil is with them when all speak well of them. If there is any set of opinions by the advocacy of which a newspaper can increase its sales, then the student. . . . is bound to dwell on the limitations and defects and errors, if any, in that set of opinions; and never to advocate them unconditionally even in an *ad hoc* discussion. It is almost impossible for a student to be a true patriot and to have the reputation of being one at the same time."

—MARSHALL.

I

§ 1. The attitude of the Government of India towards the question of gold exports from India has by now sufficiently crystallised into a definite policy to enable the student to appraise it in all its bearings. The Governor-General has only recently refused permission to a private bill recommending action in the connection, while the Government's spokesmen have, since 1931, very successfully defended its gold policy. For once, at any rate, the better argument appears to be on the side of the Government, but one cannot help feeling that the Government's theoretical triumph, which ill accords with the orthodoxy of its traditional monetary philosophy, has it own seamy side. That side is coloured by three very colourful objectives: (1) firstly the Government is satisfied that it is following "His Master's Voice"—the voice of London High Finance—very faithfully; (2) secondly, there is no doubt a secret glee in the hearts of some of the more academic Simla civilians that the "Eastern Sink" has begun at last to vomit its gold (whether or not it was good for it), so that it would now have its only worthy destination, *viz.*, Europe; (3) and thirdly, and most important, Government financiers have had an opportunity, such as they never probably had at any time in the history of Indian currency before, of enjoying quite a

slothful ease over budget-making, payment of Home Charges, and fulfilment of other external obligations, and, in general, of patting their backs for their delectable successes. On the other hand, the attitude of the public is one of panicky distrust and its one cry, at the moment, seems to be " They are taking away all our gold! " Indian politicians and most Indian economists have, on the whole, shown a tendency to support the popular view, and most of them are genuinely convinced that this squeezing of the golden hen could only have one and definite conclusion. This view, as I have shown elsewhere,[1] is born either of an *auri sacra fames* or of a misconception as to the real meaning, purpose and functions of gold reserves in modern monetary systems. Unfortunately, as it is, the question of gold exports has been mixed up by the logic of events with the general monetary policy of the Government, which I do not believe has been exactly commendable. However, I prefer to incur the odium of presenting a somewhat unpopular view in the interest of clear thinking and in the hope that it may lead us to some second thoughts on this question from the standpoint of the ultimate well-being of the country.

§ 2. Recently Professor B. R. Shenoy, in his article " Exports of Gold from India " in the July number of this *Journal*, has put forward a thesis in support of the popular view. In doing so, he has presented me with a bouquet that my views on the subject are a " good sample " of " confused thinking."[2] As I am not aware that anyone else among Indian economists has publicly expressed himself in support of gold exports, I feel myself called upon to answer Professor Shenoy's arguments *seriatim* and also to present the other side of the picture. I do wish that Professor Shenoy, instead of dismissing my views in that cavalier fashion, had attempted to answer some of the points raised by me in the article to which he refers. Coming to his own presentation, meticulously brilliant as it is in its own way, I have a suspicion that Professor Shenoy has lost the broad bearings of his arguments amidst his " preliminaries " of the

1 See my article on " Gold Export Fallacies " in the *Servant of India*, 14 and 21 March, 1935; also my articles on " The Reserve Bank and Monetary Policy " in the Reserve Bank Supplement of the *Indian Finance*, April 1935, and " The Future of the Rupee " in the *Twentieth Century*, October 1934.

2 P. 3, footnote 10a; also see page 12: " one or two German (Indian) teachers of economics the even balance asd stability of whose minds are unruffled by *political* considerations." Bracketed word and italics mine.

arithmetic of foreign exchanges and has not been able to see the wood from the trees. If Professor Shenoy had spent half as much time on his theory as he has on his facts and on legislative detail, I am sure he would have come to a different conclusion or would have at least hesitated. As it is, he has made confusion worse confounded with the series of baffling *non sequiturs* with which he has followed up his irrelevant theoretical schemata. Before attacking the main issue, therefore, it is necessary to clear up this jungle.

II

§ 3. The Circles of Exchanges Nos. 1 and 2, which Professor Shenoy has so nicely diagrammatised, are elementary knowledge and I do not believe he would make a claim to much originality as regards the proposition that gold movements take place to take advantage of certain positions of the exchange rates, which has been the theme of every text-book writer on foreign exchanges. What is not so clear in the analysis presented by Professor Shenoy, however, is, firstly, that the circles of exchanges apply not only to gold but practically to every commodity of international trade; secondly, that they apply to all arbitrage transactions, whether in commodity or foreign exchange markets; and, thirdly, that they are not peculiar to a situation in which two "unstable"[3] currencies are linked to one another. Another point, which I would stress in this connection, is that the analysis relevant to "two unstable currencies" unduly simplifies the phenomenon of international movements of gold, in considering which not *bilateral* but *multilateral* transactions have to be taken into account. Or, if triangular or multilateral trade cannot be considered, at least the simplification should consist of regarding it as a case of trade between the given country and the rest of the world. In view of the fact that gold from India has flowed to countries other than England, both directly as well as indirectly, it is clear that merely the relative movements of "franc-mark" or sterling-rupee exchange cannot adequately account for gold movements. An analysis, which might be quite to the point in the case of an assumed existence of only two currencies, so dear

3 This term, though quite in keeping with classical tradition, is not appropriate to conditions, in which gold itself, as at presest, is the most unstable currency in terms of goods.

to classical economists, becomes irrelevant as soon as we turn to the actual fact of multilateral movements of gold. Professor Shenoy's whole thesis hinges on the proposition that it was the position of the rupee *vis-à-vis* sterling, which has been responsible for the one-sided movements of gold from India to England. As I shall try to show later on, the rupee-sterling ratio has absolutely nothing to do with gold exports and the large movements of gold cannot be explained by reference to minute alterations in the ratio. Professor Shenoy has, probably, unconsciously mixed up the theory of an unnaturally *high* ratio causing outward movements of gold and securities through its adverse interactions on the balance of trade, in which gold moves largely as a monetary material, with the analysis necessary to explain large one-sided movements of the commodity, gold, caused by a high *external* price for it. This latter, as I shall show, depends not on the rupee-sterling rate, but entirely on movements of the *cross-rates*, mainly sterling-dollar and sterling-franc rates, and the prices of gold in countries outside the sterling area. Gold is at present flowing out as a very mobile commodity on the imports of which there are practically no restrictions in any country and it is flowing out just *because we are off gold.*

§ 4. Let me now turn to the second discovery of Professor Shenoy, viz., the "gold limits."[4] In his view, the limits, within which the gold values of two different currencies can diverge, without causing gold movements, and which, if exceeded, would bring about such movements, are determined by (1) "the difference between the upper- and lower-exchange points," and (2) the costs of transport and other "incidental expenses," by which he probably means insurance, interest and packing charges. These limits are "not fixed limits," since the second item, *viz.*, total expenses of transferring gold, is not fixed. This, again, is another proposition based on the fact that the gold dealer will make his calculations by reference to three factors: the prices of gold in his own and in the foreign market concerned, the ruling exchange rate, and the costs of transport in their broadest sense. Thus the limits at issue are the limits within which the prices of gold in the two markets can move, the upper- and lower-exchange points and transport costs being given. Professor Shenoy by his calculations in terms of gold values, however, creates an impression that the gold limits have something to do with the exchange ratio between the rupee and sterling. If,

[4] See his article, *sup. cit.*, p. 6.

however, he does intend this interpretation, it may be worth his while to ponder over the fact that there is no lower limit, in this case, for exchanges and that, for example, a reduction of the ratio to 1s. 4d. would cause greater, not smaller, exports of gold from India. But the main objection to Professor Shenoy's line of thinking is that he completely omits to consider the triangular nature of the present gold movements and seems to regard it merely an affair between England and India or in his rather awkward illustration, between France and Germany) only. Even granting for argument's sake that a little difference between the gold values of sterling and the rupee, either this way or that, would cause certain movements of gold between the two countries *inter se*,[5] the conclusion does not follow; for, the question is not of these temporary movements this way or that, but of the ultimate destination of gold movements outside the sterling area. In this respect, as I shall show, the sterling-dollar and sterling-franc cross-rates have been dominant considerations.

§ 5. That brings me to Professor Shenoy's complaints, (1) that the rupee is *undervalued* in terms of gold, and (2) that the rupee has been *more* undervalued in terms of gold than sterling is. This is the proposition of Professor Shenoy: " if on linking the mark to the franc, say on September 24th, 1931, both the currencies having gone off the gold standard three days earlier, gold suddenly begins to flow out of Germany in exchange for francs, this is a sure indication that the mark has been undervalued by the currency authority, the Reichsbank and the difference is greater than the gold values of $(x'_1 + \alpha$ frs. For, but for this being the case it would not be profitable to export gold from Germany to France and bullion dealers, be they French or German, do not get busy for nothing. They are an indication, *in other words*, that the franc price of gold when converted into marks at the market rate is higher than the mark price by more than the difference appropriate to the corresponding gold limit and has remained so all the time exports have been taking place."[6] These statements are sufficient to show the kind of misapprehension under which Professor Shenoy is labouring. For, it would at once become clear that in this case it is not the mark, which is undervalued in terms of gold relatively to the franc but *vice versa*. So far as India is concerned, at any rate, Professor Shenoy will have to concede that the internal or rupee

5 This will pre-eminently be the case if there were only two countries in the world.

6 *Loc. cit.*, p. 7. Italics mine.

price of gold is very much lower than the external or sterling price of gold and that the rupee is considerably *overvalued* relatively to sterling in terms of gold. In fact, that is the main reason why gold exports are taking place. Moreover, the rupee has been constantly at or above the upper exchange point, so that on that ground too the rupee is clearly overvalued in terms of gold relatively to sterling. It appears certain that Professor Shenoy has got confused over the relative undervaluation of sterling and the rupee, in terms of gold, which is one thing, and the *absolute* undervaluation of the rupee in terms of gold which is quite another thing.[7] He does not surely mean the undervaluation of exchange in view of the high gold value of the rupee, for if that were so, his illustration, cited above, regarding franc and mark prices would be irrelevant. The illustration would be still more irrelevant if he were speaking of an absolute undervaluation of the rupee in terms of gold; for, then the gold limits for franc (sterling) and mark (rupee), which Professor Shenoy is considering, would have to be ignored and the *rupee price of gold would have to be discussed in relation to its price in terms of gold currencies.* As it is, it is merely an accident that sterling intervenes in the present drama of Indian gold movements. This is largely due to the fact that London is and has been an *entrepôt* for the gold trade of the world and, to a less extent, due to the *nearness* of London to the present ultimate destinations of Indian gold exports. The fact that gold is flowing from India to England, in the first instance, has nothing to do with the ratio or with a supposed, diabolical "undervaluation" of the rupee relative to sterling in terms of gold, or even to its relative "overvaluation."[8]

The theory of foreign exchanges tells us that if a country is on the gold standard and if it chooses a high parity, *i.e.*, if it is *overvalued* in terms of gold, as (*e.g.*) the pound was in the years 1925—31 or the rupee between 1925—31, the balance of trade on visible and invisible account would get so adverse that it would cause *either* exports of gold, and/or greater external inbebtedness, and/or contraction of internal currency. The first

7 Cf. his article, p. 16, where he correctly states *his* position "that if the rupee should have a higher gold value than sterling, sterling will be supported by the rupee."

8 Recently, gold exports have been taking place directly to foreign centres, other than London, by through shipments or by the system of "optional" exports, which would take advantage of the highest price ruling as between different centres.

was experienced in England, the second and third in India. Gold exports due to such overvaluation of a currency are, however, of a different order, inasmuch as they go to fill the gap caused by an adverse balance of trade. On the other hand, the present gold exports are undoubtedly caused by an *absolute* undervaluation of the rupee in terms of gold and gold currencies. This undervaluation, or depreciation, as I should call it, is simply the result of our going off gold. Even if the rupee were *independent* of sterling and had gone off gold (which was appreciating) we would have exported gold, just as England has exported gold held on private account. If the rupee prices of gold were higher than the sterling prices of gold, gold would have perhaps flowed from England to India, but only in the case, in which there was no other market (such as the gold countries) where a *still higher price* could be obtained. The fact is that we had and have enough *private* gold to spare, which accounts for its lower internal price, while England, after selling its buttons, brooches and watch-chains, has exhausted its private hoards of gold.[9] What gold there is in England is, at the moment, held either by the Bank of England, the Exchange Equalisation Account or foreign holders who have kept it for safe custody in England. The gold in the Bank and the Account does not come out into the market automatically in response to price changes. The gold from India is flowing abroad through London as well as independently, but London, instead of being the vortex of these movements, has become a "quiet island in a turbulent sea.[10]" In these circumstances, it is clear that we could not have gone off gold without causing gold exports of some size and that our departure from gold has been the only and sufficient cause of gold exports.[11]

9 The *Board of Trade Journal*, quoted in the *Balances of Payments, 1933* (L.O.N.), p. 168, tells us that these sales were just sufficient to meet her requirements of industry and arts in England. By the Act of 1928, the Bank of England has power to forcibly purchase any gold holding of a "person in the United Kingdom" (this excludes foreigners' holdings) exceeding £10,000 in value and not required for immediate export or for industrial purposes.

10 *Midland Bank Review*, July-August, 1934, p. 2.

11 Professor Shenoy has a notion that it is some diabolical action of England which has forced us off gold and "undervalued" the rupee in terms of gold, just because this is a way in which the rupee would "carry the burden of" sterling. See his article, pp. 8, 9, 25, 27. I shall deal with this whole question separately.

Only one other question remains to be considered: Was this " undervaluation " or " overvaluation," or whatever it is, of the rupee, relative to sterling and gold, an item in a Machiavellian policy to denude us of our gold? The facts are as follows: before we went off gold, we had a low price for gold (Rs. 21 app., per total) and this was fixed by law; secondly, the external price shot up (to Rs. 34 per tola, on the average) as soon as the rupee left its gold moorings, while the internal price remained comparatively low owing to friction, owing to an enormous, accumulated supply of the metal, and owing to lack of commercial information in the country's interior. Therefore, it is clear the Government did not fix either the new bazaar price nor the new high external price; all it did was to follow sterling rather than gold. It is not, therefore, clear why Professor Shenoy should complain that the rupee has been " undervalued by the currency authority," because the currency authority, neither in England nor here, has set any valuation on gold at all. If, however, Professor Shenoy means that there was undervaluation relative to what the external gold value of the rupee would have been, if the rupee had continued to be on gold (as he seems to suggest on p. 17), the rupee exchange would have risen to 2s. 6d. approximately—a dreadful contingency against which we have been fighting all these years—and our price structure would have followed the deflationary price structure of the gold countries. The only alternative way, perhaps, in which the Government could have raised the rupee price of gold above its sterling price was devaluation of the rupee to a lower gold parity and adoption of the gold standard. This is indeed a course suggested by Professor Shenoy at the end of his article, but that would have simply meant the *commandeering* of gold resources in order to prevent their exportation; whether or not this would have been a wise course was another question.

§ 6. Professor Shenoy's next argument is that our going off gold, the gold exports, the purchase of sterling—all these factors have landed us into " an unplanned and erratic inflation."[12] This is, theoretically, a correct position, because if the surplus of gold exports causes Government to expand their note circulation, through the mechanism of a rising ratio, there may be no limit to the expansion so long as gold exports continue. However, from the practical standpoint, there are a number of mitigating circumstances which considerably weaken the force

12 See his article, pp. 18, 20, 27.

of the argument. In the first place, the commercial sellers, in so far as they sold to reap the sudden and high profits available, would replace part of their hoards with notes and rupees (probably the latter) and this would facilitate note absorption without interfering with the active circulation. Secondly, ever since gold exports began, Government have taken steps to prevent inflation by selling securities and borrowing in the market in order to cancel the effects of note expansion. Indeed they have on occasions carried this policy to an extreme and only recently there was a hue and cry against it in the financial press.[13] Thirdly, even if there is a temporary inflation in rupee prices, ultimately, so long as the rupee continues to be on the sterling link, sterling prices will be the decisive factor. For, *the pace of prices will be set by sterling policy* and in this regard, it is another well-known fact that sterling authorities have been only paying lip homage to the need of price-raising at Empire conferences and elsewhere; they have not yet brought about any substantial rise of prices owing to their vacillations between the franc and the dollar. Fourthly, in actuality we are far from any sign of an " unplanned and erratic inflation " today. Indian agriculture has been clamouring for a rise of prices to a level corresponding to domestic costs for the past few years. Yet, since 1931, the Calcutta price index, which is a wholesale index and highly relevant to agriculture, has not only not risen but fallen by five points from 96 to 91. The Bombay index does not make a better show either. This is largely due to the fact that the little currency expansion that has taken place since 1931 has been largely absorbed into the hoards.[14] Especially the rupees

13 See, *e.g.*, *Indian Finance*, February 9, March 2 and 9, 1935. " In so far as purchases of sterling in excess of home charges are financed through increased borrowings, the operation has a deflationary effect even though actual contractions of currency may not occur." *Indian Finance*, February 9. Similarly, the Committee of the Indian Chamber of Commerce, Calcutta, in their February statement, " It is curious that when the British monetary authorities have been creating records for low Treasury borrowing, the Indian Treasury has been pushing up discounts in a futile attempt to allure funds. The persistence in utilising sterling purchases for enforcing a deflationary policy is opposed to scientific canons, injurious to national interests, embarrassing to the ways and means position, disruptive of the gilt-edge market and detrimental to the recovery of commodity prices."

14 Moreover, as Professor Vakil points out in a recent communication to the press, (see *Indian Finance*, August 17, 1935) the financing of our vast internal trade is practically neglected by the currency authorities. For our prices to rise, this factor must first be affected. So long as the currency expansion does not give rise to a pyramid of credit, both industrial and rural, it cannot be, clearly, of much avail to turn the tide of prices.

have been hoarded and notes have remained in circulation. Lastly, what expansionist forces have been operating have been largely cancelled by falling gold indices. Such is the story of the price indices. If this is what Professor Shenoy would call " an unplanned and erratic inflation," we would like to have more of it. Professor Shenoy should, moreover, rest assured that the forces of deflation, taking their inspiration from Simla, have all along been arrayed on his side and Government would rather have an " erratic deflation " than its converse.[15]

§ 7. What truth is there in the contention that the rupee has " shouldered the burden " of sterling by means of the gold exports? If this contention implies that the exports of gold have *incidentally* supported sterling, it will be immediately acceptable. But if the implication is that but for the gold exports from India sterling would have gone down the abysmal depths of a precipitous depreciation, it is certainly not true. Professor Shenoy is perfectly right in saying that " England cannot afford to view with equanimity a depreciating sterling," owing to her foreign investments payable in sterling and her dependence on a foreign food supply and imported raw materials. Yet apparently what England cannot do, England has done, and the whole trend of English public opinion is today against *appreciation.* England's industry has been unusually rejuvenated by the dose of depreciation which sterling has received. It may be interesting in this connection to note that the *Economist's* index of business activity in the United Kingdom (1924 = 100) has risen from 96 in 1931 to 114 in 1935 June, which is actually the height reached in 1929, the boom year.[16] The one aim of sterling authorities, at the moment, is to prevent the rise of sterling on the exchanges and this has been their aim consistently except on one or two occasions when sterling showed weakening tendencies owing to abnormal causes.[17] On the other hand, the forces strengthening sterling at every fall are much more

15 Cf. the recent Assembly debates on this question and Sir James Grigg's statements.

16 See the *Economist Trade Supplement*, July 27, 1935.

17 Cf. Professor S. E. Harris's article on " British and American Exchange Policies " in the *Quarterly Journal of Economics*, May 1934, pp. 478 ff. Professor Harris says (p. 480): " The theory behind the British Equalisation Fund is simple: offset the additional demand for sterling *on exchange markets* with additional supplies, and thus keep sterling down." (His italics.)

powerful than Professor Shenoy imagines. If Professor Shenoy had devoted a certain amount of cogitation to these forces, he would have seen that the gold exports from India were as a drop in a bucket. In the first place, the "burden of sterling," if such it is, is being shouldered not only by the rupee but by a host of other currencies in the sterling area, like the Canadian dollar, the Australian pound, the Swedish kroner, the Norwegian kroner, the Danish kroner, the South African pound, the Egyptian pound, the Japanese yen and several other currencies of the world, possessing greater intrinsic strength than the rupee. The currencies in the area rise and fall together on the exchanges *vis-à-vis* other currencies and in this the strength of each is the strength of all. It is not a case of sterling being a parasite dependent upon other currencies and sucking their blood to feed itself.[18] Secondly, the very foreign investments, which Professor Shenoy mentions as a reason against sterling depreciation, support sterling and cause it to rise, through interest payments and principal repayments which are encouraged by low sterling. Thirdly, the self-equilibrating effects of a low exchange on imports and exports, reducing the one and increasing or maintaining the other, act in the same direction. While the merchandise balances of other countries have become progressively adverse, as the Depression has proceeded, those of England have improved from an adverse balance of £408 m. in 1931 to adverse balances of £287 m. and £264 m. respectively in the two succeeding years. Lastly, with the growing uncertainties of gold currencies, again, after a short panic in 1931, a large number of foreigners have shown a distinct preference for holding short-term balances in London rather than in their own countries. It is well known that the Exchange Equalisation Account in England was specially designed to deal with the vagaries of these floating international funds in London and was, for the same reason, in a position to buy sufficient gold (with their help) to counteract their movements. This too has been a powerful force, therefore, in support of sterling. Moreover, it is not necessary to suppose, as Professor Shenoy does, that gold must necessarily flow from India to England to support sterling. So long as gold is *flowing out of* the sterling area, whether it flows *via* Bombay or *via* London, it would have just the *same* effect on sterling's position. The main fact is that gold is flowing out of the sterling area.

18 Cf. the interesting logarithmic graphs given in the *World Economic Survey, 1933-34*, pp. 268-69, to show percentage discounts of currencies in relation to their Gold Parity. The sterling-area currencies seem to move in harmony.

Professor Shenoy mentions the fact that, in November 1932, sterling fell to \$3·15. This is indeed true, but the conclusion, that if we stopped the gold exports sterling will collapse, does not follow. The fall of sterling in November 1932 was due to abnormal events as also to some degree of miscalculation on the part of the Account. As Mr. N. F. Hall has shown that fall was due mainly to the conversion, in the year 1932, of the War Loan of £2000 m., which had a large number of external[19] holders. Mr. Hall's conclusion, which he has clearly substantiated is, that this huge War Loan became in September (three months before the date of repayment of the Loan) "the equivalent of a three months' sterling bill bearing interest at a rate of 5 per cent per annum," and that this meant "a big upward movement in the sterling exchange in the early autumn of 1932 followed by an equally rapid fall at the end of the year."[20] Moreover, the Exchange Equalisation Account misjudged the correct position of sterling and allowed it to rise between April and September to about \$3·90, when it should have acquired, by keeping exchange down, a sufficiently large quantity of external assets, which could have been useful in supporting sterling in October and November. This, as Mr. Hall acutely remarks, however, is only "wisdom after the event." Any how, the point should be clear that a level of about \$3·50 (prior to the devaluation of the dollar) or, *i.e.*, about fr. 80, was a tenable and stable position for sterling. Today, however, the problem of the British Exchange Equalisation Account is, as is well known, How to keep sterling down? And, *noblesse oblige*, the Indian, South African and Australian gold exports from the sterling area have compelled the Bank of England and the Account to buy gold with a view to preventing a *rise* in sterling.[21] Far from the gold being needed to support sterling, therefore, the gold exports are creating some not unmanageable problems for the Bank and the Account.

§ 8. I pass on to another bull's-eye of Professor Shenoy's criticism, *viz.*, the Government of India's Ordinance of 24th September 1931, on which, as it seems to me, he has put a wholly distorted interpretation. I am no spokesman of the Government, but I think that for this once they had no game up their sleeves

19 *The Exchange Equalisation Account*, pp. 34—53.

20 *Ibid.*, pp. 39-40.

21 Cf. *Midland Bank Monthly Review*, July-August, 1934, p. 2.

and we need not view this Ordinance with suspicion as a piece of machination. The Ordinance did indeed restrict the sale of sterling to normal trade requirements (but not for the imports of gold, etc.) to contracts completed before September 21, and to reasonable personal and domestic purposes. But the objectives of Government were quite different from what Professor Shenoy imagines they were. In the first place, Government were a bit panicky, and did not know their own mind. Secondly, restrictions on sales of sterling were meant as a gesture of support or a courtesy measure adopted so as not to embarrass sterling in what was belived to be its moment of trouble. Thirdly, Government full well knew that gold under the conditions would not be imported into India, except for the negligible factor of re-export, but they wished, above all, to check speculative cross-movements of gold. Fourthly, and here is the panicky element, they probably thought that at a time when the rupee suddenly jumped from 17·8d. to 18·9d. on our going off gold, precautionary measures were necessary to prevent it from rising any further, for, their only objective seems to have been to keep the ratio intact. The restriction of sterling sales was such a precautionary measure. However, soon it became clear that Government would not be called upon to sell sterling at all, but only to buy sterling. It could never be the intention of Government to ensure " that if the rupee should have a higher gold value than sterling, sterling will be supported by the rupee, because under any circumstances, short of devaluation to a low gold parity, and so long as the gold was flowing out of the sterling area,—which it would have at any reasonable valuation of the rupee under the circumstances,—sterling would have been supported, not indeed as the currency of England but as the international currency of the sterling area. As regards going off gold and adhering to sterling, we would have to indict Government on the general charge of a wrong monetary policy. I, therefore, postpone that issue for later consideration.

§ 9. Now I shall deal with the question of the profit and loss due to the gold exports. Here, we should distinguish between the profit or loss of the individual seller, that of the Indian broker or speculator, and that of the nation as a whole. Secondly, we must distinguish between a mere money profit or loss and one in terms of real goods. Professor Shenoy, through what devious paths of logic we shall see, has arrived at the conclusion that not only the prime sellers, but the country also made a money as well as a real loss, and has given two algebraical examples (on pp. 11 and 23), which are wrong, both as to their

statement and as to the inferences drawn. "In respect of the gold exports," he says, "Germany would be a loser. Consistently with the exchange value of the mark, the mark price of gold will not have risen sufficiently high during the time exports of gold take place. That is to say, the seller of gold even when he parts with it would be getting fewer marks than he should. The loss he would thus be making would be wholly due to *the undervaluation of the mark incidental to its being linked to the franc*."[22] In a footnote, Professor Shenoy works out this theory in terms of algebra. I do not know which mark price (rupee price) Professor Shenoy is considering, but I must say at the outset that, so far as Indian gold exports are concerned, there are broadly two sets of relevant prices: the prices ruling in Bombay and those ruling in the up-country markets. It is clear the former will remain higher than the latter, so long as there are quantities of gold in the interior which are superior in strength to the hand-to-mouth stocks in the ports and so long as there is a constant *external pull* of demand. However, as between the Indian port prices and the British or foreign prices there cannot be at any time a margin much larger than can cover the costs of transport, exchange expenses and a small percentage of profit for the exporter. This is what Professor Shenoy should have decided in view of his theoretical "preliminaries" of gold limits. Be the margin outside the limits ever so slight, trade will take place and by constant competition, the margin will be kept at a very low level. The gold market is very sensitive to international movements and events in Paris, London, Amsterdam and New York are keenly watched and followed by dealers in Bombay (which is the chief exporting Indian centre). By constant competition among the dealers, brokers, transporters and foreign buyers, the margins of operation within which profits have to be earned, are narrowed down to negligible proportions. Especially, in international gold centres like London, Paris, Amsterdam, and New York, the margins cannot remain so large as Professor Shenoy imagines. So far as Britain is concerned, her profit is merely that of an *entrepôt;* it is assuredly not the profit of a cornering speculator.[23]

The point, however, which I would like to drive home, is that Indian port prices would be as near as possible to the British or foreign prices and there is no margin arising from any

22 *Loc. cit.*, pp. 10-11. Italics mine.

23 *Midland Bank Review*, *sup. cit.*, pp. 3-4.

exchange disparity, as Professor Shenoy thinks. Thus, the assumption, which he makes (in the example in the footnote on p. 11 of his article), that $x > 5x'$ is not so true as to justify the conclusion that the "seller of gold even when he parts with it would be getting fewer marks than he should." Professor Shenoy proceeds: "If the downward movement of franc (sterling) continues . . . . the appreciation in the value of gold will have slipped out of the hands of the sellers. The loss of the sellers would be the gain of the bullion dealers and of the speculators."[24] This statement, on the other hand, is more plausible. But we need not regret that the seller has lost this will-o'-the-wisp of a possible profit. In the first place, if a currency is continually depreciating the forward price of gold will be higher and if the seller is wise he would sell gold for second settlement rather than "ready." But the future is uncertain,—and this is the region of speculation—and it is proper that the speculator should get his due, which it must be remembered is not always a windfall. In so far as, however, gold has already been sold to foreigners, whose currencies are on gold, there cannot be any profit accruing to bullion dealers but only on account of gold in hand, which at any time, unless cornered, can never be a large quantity. Professor Shenoy's main contention is that profits of gold appreciation have gone out of the country. This contention is meaningless when we remember that the bullion dealers, speculators and prime sellers were all Indians. What has gone out is not the profits of appreciation but the *costs of marketing* the gold abroad, which in the case of London have been cut down to the minimum owing to the fact that direct shipments and "optional" shipments have taken place to other countries, not only from India, but also from Australia and South Africa. Professor Shenoy's idea is that the buying of all this gold "would keep within the country, the fruits of gold appreciation, which otherwise would fall in the lap of the bullion dealers and speculators."[25] But, if gold remains within the country, there will be *no profits, from the national viewpoint*, just as, in the case of a private person, the profit due to a rise in, say, a gilt-edged security, cannot be

24 *E.g.*, in 1933, the average monthly estimated off-take of gold in Bombay was about 80,000 tolas, while the average estimated stock at month-ends was about 500,000 tolas. Cf. *Annual Market Review* (1934) of Premchand Raichand and Sons, p. 110.

25 *Loc. cit.*, p. 13.

realised unless the security is actually sold on the stock exchange. The profits would arise only when the gold was sold internationally. The internal rupee price of gold would indeed be high, and prime sellers and others would indeed reap certain profits, but they will be merely of the nature of internal real transfers between holders and non-holders of gold, but there will be no national gain. National gain will arise only if gold is sold abroad and profits are earned internationally. Of this more anon.

§ 10. Professor Shenoy has given another algebraical example (on p. 23 of his article) in support of his claim that the seller's profits were wholly illusory from the real goods standpoint. This example has either confused him outright or led him into a tight corner from which he has only been able to make an exit thanks to his admirable *sang-froid*. His conclusion, that the seller's obvious profits, due to a rise of gold price from £5-3-8 to £7 per ounce, were illusory, is, he believes, " not upset but rather strengthened by an examination of the index numbers." " If rupee prices have not risen in proportion to the rise in the price of gold but have actually remained more or less steady, we cannot conclude that the sellers of gold have gained in terms of commodities. For, to determine the loss or gain, comparison has to be made with what the situation would have been like, if the rupee had continued on gold."[26] He admits that if we had continued on gold, the gold price would have been lower, but each rupee in, say, Rs. $21\frac{1}{4}$ (the price of a tola) would have fetched more goods, for general prices would have fallen. He cannot say, however, whether the total goods bought under these circumstances with one tola of gold would be larger quantitatively than the total goods bought under the present régime. Professor Shenoy puts it algebraically and concludes that " The loss or gain to the sellers of gold in terms of commodities would depend upon whether $21\frac{1}{4} \quad \frac{100}{100-l} > \text{ or } < K. \frac{100}{100+l'}$. Without showing which of these was true, *it is no use presuming one way or the other*." And, therefore, we have the kernel of the truth that " *in either case*, however, our conclusion that the seller has lost *on the whole would be strengthened and not weakened*."[27] Naturally, it would be strengthened and not weakened, because Professor Shenoy is determined that it should be so! In view

26 *Ibid.*, p. 23.

27 *Ibid.*, p. 23, footnote 29. My italics.

of the fact, however, that Professor Shenoy has not even undertaken the promised "examination of index numbers," and indulged in algebraical jig-saw puzzles, I have finished his statistical enquiry in the footnote below.[28] It would appear that on Professor Shenoy's own premises, there is a net gain to the sellers. But apart from all this much-ado-about-nothing, I see no reason why the profits of the sellers should, in the first instance, be calculated by comparison of the actuality today with a possibility (that of a deflationary adherence to gold) which would surely have entailed untold *losses* upon the community far outweighing all the imaginary gains of our gold sellers. The correct comparison, in my opinion, is between the price at which gold was bought and the price at which it is now being sold or, if further refinement is desired, between the real value of one tola when it was bought and its real value today. Looked at from this angle, the conundrum is easily solved, and it becomes clear that the sellers have gained enormously, owing to the appreciation of gold in goods value and in terms of rupees.

§ 11. Now, as to the national gain. We Indians bought gold at a lower *international sterling* price and now we are selling it at a high international sterling price and hence internationally we have gained. If it was a mere question of a low rupee price (in, say, 1900—31) and a high rupee price (in 1931—35), unaccompanied by any change in the international

28 The rupee price of gold recently has been anything between Rs 30 and Rs. 35. In 1931, the Calcutta price index was 96: since then it has fallen to about 90 Therefore, the goods value of one tola today is in terms of the formula of Prof Shenoy, $K. \frac{100}{100+I'} = 35. \frac{96}{90} = 37{\cdot}3$ goods (maximum) or. $=30. \frac{96}{90} = 32$ (min.)

On the other hand, if the rupee had continued to be on gold. the price of gold would have been Rs. $21\frac{1}{4}$ (app.). In 1931. the price index. as above was 96. Later, the price level would have followed wholesale prices in gold countries, which for Holland and France, *e.g.*, show a fall to 77 in 1934. Before this date, the prices have been above 77 I shall give the benefit of the maximum to Prof. Shenoy.

By his formula, the goods value of 1 tola, in this case, would have been $21\frac{1}{4}. \frac{100-I'}{100} = 21\frac{1}{4}. \frac{96}{77} = 26{\cdot}4$ goods (maximum)

Here are the relevant statistics for India, France and Holland:

		India	France	Holland
1930	...	117	554	117
1931	...	96	502	97
1934	...	89	376	77

sterling price of gold (*e.g.*, as a result of the rupee being *à la* Professor Shenoy, devaluated in terms of gold, when, suppose, sterling was steady on gold), it would not have led to any national gain, because the gain of sellers would have caused an equivalent loss to the other sections of the community. This equivalent loss to non-holders of gold in India would have been inflicted when the gold-holders came to exercise their new accession of purchasing power in the markets, *i.e.*, there would have been merely internal transfers of wealth, without our position as a nation being affected. Then, secondly, there has been a chain of transactions, originating with sellers and finishing up with the Government. The sellers (including Indian dealers) got more rupees for the same amount of gold; the Government was in a position to pass on rupee coins and notes into internal circulation and hoards to replace the dis-hoarded and mobilised gold; then it converted the resources thus made available into sterling. Government could have either held these resources in gold or sterling. To the extent that they bought sterling securities and cancelled India's foreign obligations, they have adopted the wisest course in the circumstances. If this huge mobilisation of gold assets to cancel our sterling debts had been attempted in, say, 1930, we would have got only 21/35ths or nearly three-fifths of the present amount of sterling. Thus in so far as Government have cancelled sterling obligations, they have done a capital thing. They have permanently saved interest charges to the taxpayers to that extent and reduced our load of foreign commitments. Indeed, in view of the depreciation of sterling, that is a course of action which would suggest itself to every debtor of the sterling country.[29]

§ 12. Professor Shenoy, however, thinks that the Government's policy has been disastrous in that it "dumps on the country a mass of progressively depreciating sterling paper in exchange for a progressively appreciating commodity, gold."[30] Paper currency seems to be the pet aversion of Professor Shenoy, but it may, perhaps, interest him to know that sterling today is a more secure international currency than gold, and although it might well be depreciating in terms of gold (because gold is

[29] Only in so far as this ease of financial operations would create lethargy and permit Government to pay Home Charges out of this capital asset, gold, would the procedure be reprehensible. The proceeds from gold, a dead asset, should strictly be applied to the cancellation of interest-bearing foreign debts. Home Charges should be a charge on taxation only.

[30] *Loc. cit.*, p. 20. Also cf. pp. 9, 12, 27.

appreciating in terms of goods) it has had a more or less steady value in terms of goods. It would not be, therefore, inconsistent with Professor Shenoy's orthodoxy, if he realises that sterling does not belong to the category of those post-war paper currencies, which indulged in what he would call an " unplanned and erratic inflation." That accounts for the ever-widening sphere of influence of sterling and for the fact that new currencies are daily taking their shelter under sterling. Secondly, it must be said here that this criticism of progressive depreciation, applies, if at all, only to such liquid sterling assets as the Government might be holding; it does not apply to the *cancelled* sterling debts. Thirdly, it must be remembered that the purchase of sterling was inevitable on the adoption of the sterling standard in lieu of gold. Whether sterling was better than gold is a wider question of policy which will be discussed in a moment. The point to be stressed here is that if sterling purchases were indeed so sinful, they were the defect of the merit of the sterling standard. Fourthly, appreciation of gold is as every gold country knows to its disadvantage, progressing at a more rapid rate than is good for it. The belga has already fallen. The guilder, the franc and the lira are developing tendencies of what Mr. Graham Hutton would call, " congestion at the centre and anaemia at the extremities."[31] Unless something is done soon, it is only a question of time for the whole gold area to crack under its own weight. If this happens and international co-operation does not lead to a readoption of gold as an international currency, the future of gold is very dark indeed. The present prices of gold are bound to tumble down like ninepins. I have discussed this matter in a separate section on the future of gold and our monetary policy. Even if, however, coumtries agree to devalue their currencies, as is perhaps likely, there is such a plethora of gold, monetary and other, held in Central Banks and private hoards in Europe and also promised by increased production all over the world, that prices of gold are bound to fall. Then, indeed, sterling would appreciate in terms of gold, and it would be a case of " he laughs best who laughs last." Anyhow, apart from the small and shrinking gold area, sterling has already appreciated in terms of the devalued gold currencies such as the belga and the dollar. Its appreciation, especially, in terms of such a dominating currency as the dollar (from about 3·25 to 5 dollars) in the last three years is a hallmark in the career of

31 *The International Gold Problem*, p. 192.

sterling and bears out the truth of the foregoing argument. Lastly, Professor Shenoy has very hazy notions about keeping "the fruits of gold appreciation" within the country. He can do this to his heart's content by buying the hoarded gold and bottling it in the Reserve Bank and can even buy more of it. But he should as well know that the "fruits" cannot be plucked *unless the gold is sold outside;* and as regards the "relief to the taxpayer," any inflation would give this. It is merely a hallucination that there is any national gain in keeping the gold. The nation cannot eat its cake and have it too.

III

§ 13. But the question, which we Indian economists should be able to answer today, is of a far graver significance than this narrow discussion would suggest. Since time immemorial, with a few and insignificant breaks, our country has been importing gold at a steady rate of about £20 m. per annum on the average. Not unjustly has India been nicknamed the "Eastern sink for gold." No one knows how much gold has been hoarded, buried and sterilised in this country since the days of the Moguls. Indian stocks of gold have been variously put down at Rs. 1000 cr. and Rs. 1500 cr., but these are clearly conservative estimates. Add to these the stocks of silver, which, there is reason to believe, are nearly as great in value as the gold stocks, and we shall have an idea as to the extent to which we have buried our wealth in *dead* assets.[32] At the same time, all these years, we have borrowed from abroad both on public and private accounts vast sums of money and our foreign obligations are piling up. The foreign liabilities of the Government of India (including sterling loans, railway annuities, liability assumed by the Government of India in respect of British Government 5 per cent War Loan, 1929—47, etc., but excluding rupee securities held by foreigners) stood at the figure of £383 millions on March 31st 1934, while the total public debt of India (including the rupee debt) stood at Rs. 1,224 crores at the same date. Add to this the rural debt of about Rs. 1000 cr. Against this mass of private and public debt, external and internal, we have our assets in bullion, dead as the dodo, buried and useless. No wonder, capital is "shy" in India and there is a scarcity of liquid wealth. It could not

32 Statistics for the last 35 years are given in *Indian Finance*, (1934) *Year-Book*, 12.

be otherwise, but let us think of the immense possibilities, which would have been realised by the mobilisation of this huge leviathan of gold and by the cumulative effects of the compound rate of interest. Let us not cry ourselves hoarse that India is getting poorer because of the gold exports, for, we did not rejoice that she was getting richer all these years while we were importing gold. Let us remember that this is a piece of barbarism which has been condemned by every sensible economist from Adam Smith down to Mr. J. M. Keynes.

§ 14. The extent to which we have upset our balances of payments and got into deeper and deeper water on capital account by our *auri sacra fames* will be clear from the following typical statistics for the years 1923—31.

[*N.B.*—The figures refer to net balances only on each item and are in crores of rupees.

The merchandise balance is corrected for land-frontier trade and wrong valuation.]

Year	Income Account			Capital A.	All items
	Visible	Invisible	Gold		
1923-24	+110	−75	−29	−60	...
1924-25	+118	−65	−74	+21	...
1925-26	+119	−65	−35	−19	...
1926-27	+35	−64	−19	+48	.
1927-28	+51	−66	−18	+33	...
1928-29	+66	−63	−21	+18	
1929-30	+54	−50	−14	+10	...
1930-31	+37	−49	−13	+25	..
Total.	+590	−497	−223	+130	
1931-32	+22	−53	+58	−27	..
1932-33	−5	−50	+65	−10	...
1933-34	+27	−46	+57	−38	...

(Collated from the *Balances of Payments, 1933*, p. 100).

It will be seen from the figures that during the eight years prior to our going off gold we were piling up commitments (to

the tune of Rs. 130 crores) abroad, both long-term as well as short-term, which could have been met without any difficulty, if we had stopped importing gold. What rake's progress is this, that we, who by all tokens have been getting into difficulties in a period of serious Depression and of a deflation initiated by a high rupee exchange, should have continued to indulge in reckless gold imports, thus making our capital position daily more and more adverse? The period chosen above is only typical of what has been happening for generations past and, never, did we raise our little finger against this Midasian craze. If all this gold had not been imported, we could have met our capital requirements with the help of the series of favourable balances which India has always enjoyed. We have, on the contrary, all these years frittered away our foreign balances in buying these trinkets, which, as wealth, are lost to us, lost to the Government and lost to the world.

IV

§ 15. I shall now deal with certain popular fallacies[33] regarding the gold exports which, though not quite so sophisticated as those let loose by Professor Shenoy, have still an air of plausibility about them, and, therefore, to minds, already prejudiced with the politics of the question, look both attractive and convincing.

Fallacy No. 1 is that a high sterling ratio has been responsible, and wholly responsible, for the exports of gold. Now, there cannot be two opinions, at least at this distance of time, as regards the fact that in the period beginning from 1924, the year of *de facto* stabilisation at 1s. 6d., and ending September 21, 1931, the rupee had been pegged at an unnaturally high ratio, which caused an extra price-fall to be superimposed on a price-fall which had already resulted due to the Depression. Consequently, as I have shown elsewhere,[34] the rupee had to go through a process of grinding deflation and our merchandise balance became less and less favourable. As may be seen from the statistics of balances given above, right up to our going off gold, we were substantial importers of gold. The imports, however, were diminishing at a steady rate. In all probability, by the law of chances, by this time, we would have been neither exporting nor

33 Cf. my article on "Gold Export Fallacies," in the *Servant of India*, 14 and 21 March, 1935.

34 *Indian Finance*, Reserve Bank Supplement, April 1935, pp. 16-17.

importing gold, if things had continued as before 1931. The fact that, suddenly as soon as we left gold, we assumed the rôle of exporters on a large scale, thus, cannot be attributed to the ratio, but just to our going off gold. The Depression, too, has its share of influence in this respect. As a result of this, trade balances of practically every country in the world have fallen; for, international trade itself has been strangled, so that merchandise balances, whether favourable or adverse, have also narrowed down. We cannot say, therefore, that the ratio, working through progressively deteriorating balances, caused gold exports. The fact that our merchandise balance became actually adverse (-5 crores, including adjustments, but $+3$ crores, favourable, otherwise) in 1932-33, cannot be attributed to an adverse ratio, as the very adverseness of the ratio became a historical detail, owing to the entire aspect of things being changed by our going off gold. The adverse balance of that year was due to imports having actually increased, while exports were falling. In this maintenance and increase of the imports, the Ottawa Agreement played some part, as an instrumental cause but it is indubitable the gold exports *themselves stimulated the imports of goods* to a great extent, especially imports of luxury items, such as motor cars, silk manufactures, electrical and wireless goods, and necessaries, such as cotton and woollen goods. On the other hand, the beneficial effects of our going off gold on the trade position have come with a surprising lag; and in 1933-34 and the present year, our balances have strengthened considerably. But the strongest proof of the improving position is to be had in the fact that our balance on capital account has become, probably for the first time on this scale, greatly favourable and we are now importing securities from abroad at a substantial rate.[35]

Fallacy No. 2 is that the gold exports have maintained the ratio. This fallacy however, is not so clear *prima facie*. Of course, the gold exports have *incidentally* maintained the ratio; no one can deny that. But those, who give utterance to this fallacy, generally also imply that gold exports were in some way *necessary* for the maintenance of the ratio; *i.e.*, in brief, that if gold exports had not filled the gap in the total adverse balance, the exchange would have fallen. The answer to this line of thinking is two-fold. In the first instance, gold exports themselves have encouraged commodity imports to a large extent and

35. See last column in the Table given above.

reduced the merchandise balance; so if gold exports had not taken place, the goods imports would have fallen still further and the balance would have been corrected to a corresponding extent. Secondly, gold exports have more than maintained the ratio and if the authorities had not controlled it, it would have easily risen to more than 2s. Therefore, we cannot say the gold exports were *necessary* for maintaining the ratio. This conclusion is strengthened by the argument that, in all probability, by the law of chances, by this time, we would have neither exported nor imported gold, if neither sterling nor the rupee had gone off gold.

Fallacy No. 3 is that England has been denuding us of all our gold, and "giving us only paper." The exports have been compared to the loot of Mahmud of Ghazni and much political capital has been made out of them by popular speakers in want of suitable war-cries. Their main contention is that exports of gold are a sign of India's growing poverty. The exports of gold are not a sign of India's growing poverty any more than the imports of gold prior to 1931 were a sign of her growing richness. If we have reduced our foreign obligations, imported other forms of durable wealth, relieved distress in one of the worst Depressions the world has experienced, with the help of dead asset like gold, this is indeed a matter for congratulating ourselves on being so civilised. And, most important of all, the gold has *not* gone to England but it has gone wherever it has found a high price.

Fallacy No. 4 is to be found in the query, often made in this connection, *viz.*, if hoarding of gold is so bad and exports so virtuous, why are the western countries accumulating it with vim and vengeance? This query, however, is of the *tu quo quo* order, and can never be a valid argument in logic. The obvious answer is that if other countries choose to do so, let them stew in their own ignorance; we should examine a question purely from the standpoint of our own good. But apart from this, there are indeed reasons why western countries are thus scrambling for gold. In the first place, countries, with vast international commitments and dealings, have to care for the opinion of others. Unfortunately, the commercial world is still, to a large but diminishing extent, impressed by high bullion proportions backing currencies; while speculators are kept at bay, if a country has large liquid resources like gold or is known to have such resources, at its command. Secondly, many of the western countries do not want to be caught napping if there is a general return to gold at lower parities or some such thing. Thirdly,

the Exchange Equalisation Accounts in Britain and America, as also the Banks had to buy gold to keep the exchanges down at a suitable level which would be advantageous to trade and credit policy. Fourthly, many private persons in European countries, having less faith in their own national currencies, have invested in gold instead. The *Fourth Annual Report* of the B.I.S. informs us that at the beginning of the year 1934, gold worth about 7,000 million Swiss francs was thus held by private persons in various parts of Europe.[37] The case of India is not *in pari materia.* Western countries, whether for necessity or pleasure, have maintained and can afford to maintain their white elephants. India cannot do it. In the first place, India is too poor to afford this luxury. In the second place, Indian economy is not so international and there is no question of international prestige, nor of any bear attacks on the rupee from outside of which we need be afraid. In the third place, the masses have by now got sufficiently accustomed to some form of token currency, whether it be the rupee or the note. At the moment, for example, there is no link between gold and the rupee, but that scarcely affects the prestige of the rupee in the villages. A limited amount of backing of reserve gold for the rupee (as, *e.g.*, Rs. 40 crores, which is the statutory minimum for the Reserve Bank of India) just for inspiring confidence among the financial world, would be sufficient.[37] It would be an unnecessary ado to invest the nation's resources in a non-interest-bearing asset like gold, under circumstances, in which such an action was not called for by the state of confidence among the people.

V

§ 16. In this section, I propose to deal with the questions of gold prices, in the interior or up-country, and in Bombay and London, the dependence of gold prices on cross-rates, and the various forces affecting gold prices from time to time. The Indian gold market, as at present constituted, falls into two broad divisions: the up-country market and the Bombay market. The latter is more sensitive than the former to movements of cross-rates and foreign prices and this is largely due to the fact that information as regards foreign movements filters slowly into the up-country market and thus there is a certain lag. The up-country rate of gold is secondarily determined by the Bombay

36 See J. M. Keynes's remarks on this subject in the *Economic Journal*, September 1934, pp. 514—18.

37 Cf. Keynes's *Treatise*, Vol. II, pp. 272 ff.

rate, while actual movements, having reference to earlier contracts, respond also with a lag, so that stocks in Bombay swell and shrink often without reference to current prices. Actual shipments from Bombay also, unless they are *optional*, are often in fulfilment of outstanding contracts. Dealers and speculators, therefore, though generally assured of their margins, have to bear a certain amount of risk in these dealings. Bombay prices are affected very closely by (1) cross rates, (2) gold prices in foreign centres, especially London, Paris, Amsterdam and New York, and (3) the speculative element, which may be active either in the foreign centre or in Bombay or in both. As a result of these various forces acting simultaneously, sometimes the Bombay prices remain near or even above the "export parity," and this is the case especially when outstanding foreign contracts have to be fulfilled and there is a feverish buying activity in the Bombay market. Then even the cross-rates fail to affect Bombay prices which discourage further contracts for some time. This was the case, for example, in March 1934, when forward commitments for March settlements encouraged by the devaluation of the dollar, were very large and local rates ruled well over export parity. On the other hand, when gold prices continue to rule high in local markets, shipments are curtailed. For example, in August and September 1934, shipments were reduced to very low figures, owing to rumours regarding the depreciation of the pound to fr. 70 and a further devaluation of the dollar, which raised local rates above export parity, and in the third week of August, for the first time since our departure from gold, there was no shipment of gold from India.

The sterling-franc cross-rate has been the prime factor in determination of Bombay prices and of exports of gold, franc being the leading gold currency and Paris having developed into a determined buyer of gold, as a result of the deflationary policy of the Bank of France and the French Government. However, since the revaluation of the dollar at 59·06 per cent of its former gold parity on January 31st, 1934, the sterling-dollar cross-rate has come in as an additional factor. The movement of prices and of the metal itself are *alternately* determined by the two cross-rates, if the weakness of sterling, in terms of, say, the dollar, is due not to any general fall in sterling, but due to, say, any action of the American Exchange Equalisation Fund, in which case the sterling-franc cross-rate strengthens in a compensatory manner. The movements are, however, *simultaneously* determined by both cross-rates and gold flows in both

directions through London, if the weakness of sterling is general and due to some inherent cause. Statistics of (lowest) cross-rates and (highest) prices in London and Bombay are given below, for a typical period, April 1933 to March 1934. Mark the prices in February 1934, *i.e.*, after the revaluation of the dollar.

	Sterling-dollar	Sterling-franc	Gold price London s. per oz.	Gold Price Bombay Rs. per tola
April 1933	3·41	85·7	122·5	30·0
May 1933	3·87	83·4	124·7	30·7
June 1933	3·39	85·2	122·5	30·4
July 1933	4·31	84·7	124·8	31·0
August 1933 ..	4·40	81·1	129·3	32·2
September 1933 ...	4·52	78·7	133.7	33·0
October 1933	4·50	77·9	134·7	33·2
November 1933 ...	4·79	79·2	133·2	33·1
December 1933 ...	5·01	82·2	127·0	31·5
January 1934 ...	4·95	79·4	132·9	32·8
*February 1934 ...	4·90	76·9	140·0	34·7
March 1934	5·06	76·9	137·4	34·0

* Date of revaluation of the dollar, Jan. 31.

It will be apparent, from the above table, that although the sterling-dollar rate was rising between April and September, there was a clearly marked tendency for gold prices in London and Bombay to rise. This was due to the continuous fall of the sterling-franc rate up to that date. Later, also, up to January 1934, gold prices were oscillating by reference to the sterling-franc rate and were indifferent to the sterling-dollar rate, as the gold price was not sufficiently high in the United States. But from February 1934 onwards, the dollar became significant in determination of gold prices as discussed in the previous paragraph.

§ 17. The other question which I propose to discuss here is that of the destination of the gold which has flowed out.

Where did it all go? Here are the statistics for gold exports from and imports into England for 1928—34:

(*In million £.*)

	1928	1929	1930	1931	1932	1933	1934
Imports ..	48	62	87	98	152	251	262
Exports	42	77	82	132	134	60	129
Net	−6	15	−5	34	−18	−191	−133

Prima facie, it would appear that the total amount of gold which was imported as a net balance into England between 1932—34 and which amounted to £332 m., had something to do with gold exports from India. This, however, is not so. The exceptionally heavy amount of gold imports in 1933, *e.g.*, is stated by the *Board of Trade Journal* to be due largely to gold being sent to the U. K. and held there by foreigners on their[38] account, while an identical conclusion is drawn by the Memorandum (52) for March 1935 of the London and Cambridge Economic Service, for the year 1934. Detailed statistics are not available for movements of gold either from India to various foreign countries, or as between the various foreign countries *inter se*. Indeed, to search for our gold now would be like looking for a black hat in darkness. However, with what statistics are available, we shall try to construct a rough picture of gold movements and their uses. Between December 1933 and March 1935, the gold *bloc*, as a whole, found its stocks depleted to the extent of 394 m. Swiss francs (£1 = 15½ Swiss frs. app.) from 23,754 m. to 23,360 m. Swiss francs, but France alone increased its stocks from 15,655 m. to 16,779 m. The United States gained 995 m. Swiss francs, increasing its stock from 20,793 m. to 21,788 m., while the United Kingdom gained only 7 m. Swiss francs, having increased its stocks from 4,810 m. to 4,817 m.[39] Thus it will be seen that the gold could not have gone to England, but that it has filtered into France and America through England. The Bank of England has, indeed, strengthened its gold reserve and also the Exchange Equalisation Account has been known to have bought certain quantities of gold. The increase in the Bank of England's gold stocks between September

38 See, *Balances of Payments, 1933*, p. 168.

39 Statistics from the *Economist*, May 25, 1935, and the *Fifth Annual Report* of the B.I.S. (1934-35).

21, 1931 and August 1, 1935 was of £56·8 m.[40] The Account does not give us any idea as to its gold investments, but it appears, as pointed out by the London Cambridge Economic Service, (Memo. 52, p. 10) the Account's recent purchases are probably insignificant. However, the Account was floated with an initial capital of £150 millions. It is quite likely that a portion of this is invested in gold. But the conclusion at which we must arrive is not that the Indian gold went into the British vaults, but that the Bank and the Account had to buy gold in their efforts to keep down sterling on the exchanges. This they would have had to do even if India was not an exporter of gold. Owing to depreciation of sterling, there took place a repatriation of England's foreign credit, both short and long, while foreigners too found sterling a good investment, promising a probable future rise. The effects of these funds had to be cancelled. It was, therefore, at considerable sacrifice on foreign investments that England bought this gold to keep sterling down.

VI

§ 18. When England went off gold in September 1931, there were five distinct alternative courses open to the rupee authorities, which may be summarised as follows:

1. Going off gold, linking the rupee to sterling at the existing ratio of 1s. 6d.
2. Going off gold, linking the rupee to sterling at a lower ratio of, say, 1s. 4d.
3. Sticking to gold at the old, pre-departure parity.
4. Sticking to gold, but at a lower, devalued parity.
5. Going off gold as well as off sterling, implying some management of the rupee with a view to stability of internal prices relative to internal costs, and leaving the rupee to find its exchange level.

The first course was the one to be actually adopted by the Government, that being the line of least resistance. In 1931, when the world's currencies, including gold, were in the melting-pot, sterling suddenly became a haven of refuge and a majority of the world's currencies, having vacillated for some time between gold and sterling, took shelter finally under sterling. Judging from results, we cannot say that these currencies were injured by the predominance of sterling; on the contrary, as is well known, the sterling area has, in recent years, experienced a measure of prosperity which is denied the gold *bloc* and which

40 *The Economist*, August 3, 1935, p. 259.

was even, perhaps, at the expense of the gold *bloc*. In view of the intimate trade relations and other points of contact between England and India, I do not think that the rupee authorities, in maintaining the sterling link, when in a moment of doubt, were much mistaken. It is indubitable the monetary " horizon " was very clear in 1931. However, I do not think the same position holds good today. Today, the monetary " horizon " has sufficiently clarified to make possible a permanent change in the monetary policy of India and, in addition, we now possess an instrument of control in the Reserve Bank, which, if wisely handled, is undoubtedly capable of solving some of our currency problems. Now, once the rupee was linked to sterling instead of to gold, there were three possible lines of action, as regards management of the ratio, which was being pitched up by the enormous exports of gold,—either to put an embargo on gold exports, or to buy gold on Government account or to buy sterling. The embargo would have kept the gold in the country, but, in view of the foregoing discussion, this would have been an unnecessary and unwise interference with a highly desirable movement. In my opinion, *there should have been a very strict embargo on the imports of gold all these years* rather than one on its exports at this juncture. India has all these years behaved like a naughty child, eating sweets all the time and spoiling its stomach by gastric congestion; and it was a capital thing that it received a dose of castor-oil. It is a wrong therapeutics of the question that this congestion should have been allowed to remain. If Government had bought the gold, the question arises, what it could have done with such an investment; the Reserve Bank would have had all the gold that was necessary for the " backing " of the rupee, by conversion of silver and other securities into gold.[41] Such a huge investment would have only embarrassed Government in the gilt-edge market as well as in its budgetary transactions and would have been a wholly wasteful procedure, from the point of view of *national* gain. It was certainly wise on their part, therefore, to attempt a repatriation of securities by buying sterling and thus relieving the burden of India's foreign debt to that extent. So far as the liquid sterling assets held in short-term securities are concerned, they are quite a sound investment. The prestige of sterling is high and the future of gold is dark.

41 Although the gold proportion of the Paper Currency Reserve was very low in September 1931 (between 12 and 4 crores), the silver and securities position was very much stronger than before (about 132 crores and 10 crores respectively). In the case of a token currency based on an exchange standard, as the rupee has been, it is not necessary that there should be a high proportion of gold.

In these circumstances any wise investor would invest in sterling rather than in gold.

§ 19. The second alternative, that of sterling link with a 1s. 4d. ratio, lost some of its force since our going off gold. Today it is difficult to say whether the rupee is overvalued, natural or undervalued. I should view it entirely in terms of the price level.[42] If the wholesale price level as from the crucial date of change shows even a slight tendency to rise, it is impossible to pronounce the ratio to be high. However, if we *are* to have an exchange standard and if that exchange standard is to be sterling, I should plump for a lower ratio than 1s. 6d., in view of the fact that sterling authorities are not taking any active steps to realise that price-rise to which they have been paying lip homage in the last five or six years. The rupee price level, therefore, is still making a halting progress. The only solace has been that it is higher (91) than what it would have been if we were on gold (75). Of course, the ratio of 1s. 4d. would, contrary to a widely held belief, have caused still larger exports of gold, as a result of a higher external rupee price thus made available. But it would have been no calamity and agriculture and industry would have prospered with a price level attaining its parity with the cost level, while the exports of gold would have cancelled our foreign obligations more rapidly.

§ 20. Sticking to gold at the old parity, the third alternative, can only be suggested by a die-hard gold maniac. This is probably what is often meant by those who would have us to leave sterling and " allow the rupee to find its own level." But such people hardly give thought to what would have been our position both as regards our foreign balance and our internal prices. Our balance of trade, owing to high exchanges, would have dwindled to nothing or actually become adverse, our price level would have followed that in the gold countries and would have experienced the same kind of financial topsyturvydom as experienced by the madly heroic countries in the gold area. These are possibilities against which we have fought all these years and we should be consistent in what we really want.

§ 21. Sticking to gold at a lower parity is the panacea suggested by many, and Professor Shenoy makes it the cornerstone of his proposals. Professor Shenoy, moreover, would pin his faith on a Gold Bullion Standard, " of the type that was in operation in England before 1931, or is in France today and not

42 Cf. my article on "The Theory of International Prices," in the *Indian Journal of Economics*, Conference Number, April 1935.

the spurious one recommended by the Hilton Young Commission in 1926."[43] He does not state the exact degree of devaluation which would have been advisable; but let us suppose the gold contents of the rupee were reduced by about 40 per cent, which is approximately the actual position indirectly reached at present. This would have meant that all the gold, which has gone out, would have remained in the country and Government would have had to buy it at the new statutory price of, say, Rs. 35. This would have led to an expansion of currency as large as in the case of the present régime, but Professor Shenoy thinks it " could not have been beyond the control of the currency authority." In his view, " It could have been held in check at will or neutralised by floating loans, selling securities or curtailing the normal outflow (?) of money through the normal (?) channels,"[44] as if either of these remedies were or are not available to Government in the present case to control an " erratic " inflation! Then Professor Shenoy proceeds to say that " If *too large* an amount of gold for instance were to be found to have accumulated with the Government, rather than invest them in an *unstable* currency, it would then have been far more preferable at a convenient time *to dispose of the excess for redeeming such of the external debts* as could be redeemed or for buying up others and *float an equal loan at home* to replace them."[45] The points, which, however, arise in this connection, are: (1) What, according to Professor Shenoy, would be " too large an amount of gold " and by what criterion would he judge it? (2) Is gold more unstable today than sterling or the other way round? (3) If we are to dispose of the excess by redeeming foreign debts, can and is not the same thing being done today? (4) Lastly, what is the necessity of floating an equivalent loan at home, if the foreign debt is *cancelled* with the gold? The main argument of Professor Shenoy is that his scheme would have " kept at home the benefits of the rise " in the price of gold and would have " saved the losses on the sales of gold inevitable under the rupee-sterling ratio."[46] That both these arguments are fallacious I have amply proved in § 10—13 above and I do not propose to repeat all that I have said. But I wish merely to point out that in so far as India would retain the gold, she could not have cancelled the foreign debts and, as regards replacing foreign debts by internal loans, this course has been open to Government

[43] *Loc. cit.*, p. 25.
[44] *Ibid.*, p. 24.
[45] *Ibid.*, p. 24. My italics.
[46] *Ibid.*, p. 24.

all these years, and is common ground. That this was not done was due to circumstances which are not strictly relevant to the present discussion. Still, it may be pointed out that the main reason why it has not been done has been that it would have involved us in a vicious circle of inflation: floating internal loans against new currency printed and selling this again against sterling, thus putting it into circulation again! The strongest argument against the position taken up by Professor Shenoy, however, is that in trying to realise the impossible ambition of keeping the gold and also keeping the profits on it, the country would have invested a vast amount of its national wealth in a dead asset, which, mobilised, would enrich it *internationally*.

Professor Shenoy's preoccupation with the Report of the Hilton Young Commission has made him clamour for the " jam " of the gold bullion standard, which was withheld from the country by the subterfuge of the Commission. That the Commission's own " jam " was a " spurious " one has been shown so clearly by Professor Shenoy himself[47] and that fact may at once be accepted. But the conclusion does not follow that the gold bullion standard *either* has been ever the ideal currency for India, *or* that it is an ideal one at present. The gold bullion standard is after all an *exchange* standard: it does not give us the kind of *independence* in monetary management at which we (including perhaps, Professor Shenoy) have been aiming all these years. It would give us merely a stability of exchanges *vis-à-vis* such currencies as might at the same time be on gold. Stability of exchanges may perhaps be a desirable thing for countries having a large volume of international dealings, both on income and capital accounts. It would be a commonplace to labour the point any further that for a country like India, whose internal trade has been variously computed to be 10, 15 and 50 times as large as the foreign trade, an exchange standard is undesirable. Today, enlightened economic opinion is moving away from exchange stability and towards the ideal of internal stability, involving costs-prices parity. Internal stability, in this sense, does not necessarily imply serious exchange instability but only, as a recent joint memorandum on Belgian currency, by distinguished Belgian and English economists, has pointed out, the widening of the range of fluctuations of exchanges within certain limits. In view of the progress that has taken place in monetary theory and practice, it would be too late in the day to cry for a gold standard. It is in the words of Professor Shenoy, indeed,

[47] *Indian Journal of Economics*, October 1933.

like "asking for Dominion Status," but in a different sense, *i.e.*, when complete *swaraj* might be possible!

Such vast quantities of gold are at present being thrown on the world market for monetary purposes from various sources that the future prospects of the stability of gold are very dark indeed.[48] Even if there is a general return to gold, which is problematical, there is no guarantee in a future world gold standard to keep prices stable in relation to costs. The old "rules of the game" have become antiquated and countries, which have learnt new methods of safeguarding themselves at the expense of others, can hardly be expected, for any length of time, to refrain from practising them again. Again, the old difficulties are bound to crop up and again, currencies will be in the *doldrums* of monetary uncertainties. In these circumstances, it will be unwise for India even to join a new world league of gold currencies. Her well-being does not lie that way. As it appears to me, *a Paper and Token Rupee Currency, backed by moderate quantities of gold, say, about Rs. 50 crores, managed internally and with a view to internal stability*, would be an ideal currency for India, in view of her "closed" economy, in view of the possibilities of the well-being of her industrialist and agriculturist populations which depend on a stable costs-prices relationship and in view of her poverty which ill accords with the holding of enormous quantities of the precious metals. As regards the gold and silver, hoarded from the days of the Moguls, the best course would be to effect an *early and Gallipolean liquidation of our stocks*, while the international prices of these metals are high and to prevent a possible future repetition of this evil by putting prohibitive import duties on both the metals.

48 The world gold production has been rapidly increasing both under the stimulus of the depreciation of sterling and the devaluation of the dollar and also because of the growing output in Canada and Russia. Add to this the enormous quantities dis-hoarded from India, China and Hong-Kong (about 5000 m. Swiss frs. since 1931), the old gold reclaimed from U.S.A., Europe and elsewhere, which has met all the demand of the arts and industries, the huge hoards of the various Exchange Equalisation Accounts, the gigantic private hoards in Europe (7000 m. Swiss frs.) and the gold which could be made available from new fields being worked in Western Australia and elsewhere and we shall have an idea as to the huge stocks of gold that would be available. These are sure indications of instability such as would arise if countries go back on gold when all this gold will again be mobilised. For details, see the *Fourth* and *Fifth Annual Reports* of the B.I.S., Keynes's Note in the *Economic Journal*, September 1934, pp. 514-16, the *Economist*, May 25, 1935. and Kitchin, *Memorandum* in the *Economist* January 21, 1933.

PROFESSOR B. P. ADARKAR'S GOLD EXPORT FALLACIES

BY

B. R. SHENOY,

Ceylon University College, Colombo.

One does not know if Professor B. P. Adarkar has formulated the views he has on the problem of gold exports out of a "fear of popular approval" against which the Marshallese gospel, which he quotes with solemnity, warns him. But the true touchstone of the views we may express should be their scientific perfection and not the popular approval or the reverse of it. In any case Professor Adarkar prefers to " incur the odium of presenting an unpopular view." But I hope he does not thereby suggest that by doing so he has ensured himself that " evil is not with him! " Be that as it may the self-imposed martyrdom, and a solitary one avowedly—somewhat cheap as it might appear—of Professor Adarkar should bring him respect and I do hope that he will be adequately rewarded.

Professor Adarkar in his article on " A Review of Gold Export Fallacies " complains that I did not prominently display the arguments he tried to make out in a newspaper article but merely dismissed it in a footnote drawing the attention of the readers to it only as a sample of confused thinking. But consistently with the limited space at my disposal I could not be expected to waste time and words on a type of stuff which was perhaps a mere after-dinner passtime. I had therefore mainly directed my attention to certain relevant points in a general way and to Sir George Schuster's thesis on which, incidentally, many had drawn without acknowledgement. It was certainly the ablest defence of the Government's position which Professor Adarkar is endeavouring to support, himself enveloped in a fog of undigested information and merely decorative but empty verbiage and in that position, fanatically clings to a mass of fallacies while at the same time, curiously enough, calls names to others who discovered him in that predicament. But in view of the enthusiasm with which Professor Adarkar is now trying to maintain the position once assumed no doubt without much serious, clear and scientific argumentation I may here briefly dwell upon the case he is attempting to make.

In my article on "The Exports of Gold from India: an analysis of the Government's currency policy," starting from the very basic principles I had come to six conclusions which were very relevant to the issue under discussion. These conclusions referred to the behaviour of two currencies off the gold standard but chained to one another at a fixed ratio and the reaction of this on the movement of gold. To ensure that the clarity of the discussion may not be vitiated by traditional or other bias I had taken for my illustration, a hypothetical case of France and Germany, the franc and the mark. It may be convenient to take over these conclusions bodily here:

"(1) When two unstable currencies are linked to one another at a fixed ratio they must necessarily tend to rise or fall together in terms of gold.

"(2) If the difference between the gold values of the two currencies is wider than the gold limits, then gold will flow from the country whose currency is undervalued to the other. The exports of gold will continue until the difference in the gold values comes to within the gold limits.

"(3) Conversely, if on linking two unstable currencies to one another at a fixed rate gold suddenly begins to flow out of one to the other, and continues to do so, this is an indication of the gold exporting country having its currency undervalued in terms of gold.

A further evidence of this would be that, if the undervalued currency, for instance, be the mark, the mark-franc exchange rate would be above par and at the upper franc point.

"(4) (*a*) The above propositions presume that the movement of gold and the two-sided convertibility of the currencies is subject to no restrictions whatever. If, for instance, limitations are put upon the sale of franc exchange by the currency authority or the import of gold into Germany prohibited or made impossible by not making available franc exchange for the purpose, in the event of a being $>$ b, the mark will have no choice but to shoulder the burden of the franc. But the franc will then be free to leave behind the mark if the latter depreciated more than the former. In the latter case a difference will

appear in the market rate of exchange and the official rate, which will lead to the abandonment of the link. This arrangement would be ideal for France if her interests lay in preventing the depreciation of the franc.

(*b*) If on the other hand the restrictions are placed on the buying of exchange by the currency authority and on the import of gold into France, while the mark would be free to leave behind a depreciating franc, the franc will not be free to do so in the event of b being $> a$. In the former case a difference will appear in the market rate of exchange and the official rate, which will lead to the abandonment of the link. This arrangement would be ideal for Germany.

" (5) The policy of linking two unstable currencies to one another at a fixed ratio is fundamentally objectionable. For, it leads to exports of gold from the country whose currency is undervalued, expansion of currency and depreciation. The link inevitably involves losses on the exports of gold, and the inflation and depreciation caused by it are without a plan and beyond the control of the country concerned.

" (6) Under the circumstances the best policy for the Government to adopt would be to abandon the link, impose an embargo on the exports of gold and to buy the gold."

In the somewhat lengthy reply to my article Professor Adarkar has somehow found it convenient to jump over the first part (Section II) in which I discuss the preliminaries. The rest of the argument and its application to the Indian situation wholly rest upon this part. It is important, therefore, that discussion should centre round it first. I would ask Professor Adarkar to deal with these conclusions one by one and whether they are acceptable to him and if not why not.

It is no use telling me as he does that I have not been able to see the wood from the trees which he has been able to; that if I had made his mistakes I would have come to his conclusions; that he has a suspicion that I have mixed up this with that; that I have made confusion worse confounded with a series of baffling *non sequiturs;* and so on. These are very cheap assertions and are best left behind in the high school debating union.

It is also no use making wild assertions or generalisations without adequate proof. Let me give an example for Professor Adarkar indulges in too many of them. He observes: "The analysis relevant to 'two unstable currencies' unduly simplifies the phenomenon of international movements of gold, in considering which not *bilateral* but *multilateral* transactions have to be taken into account. Or, if triangular or multilateral trade cannot be considered, at least the simplification should consist of regarding it as a case of trade between the given country and the rest of the world." (§ 3 of his reply) After laying down this law in the very next sentence he asserts: "In view of the fact that gold from India has flowed to countries other than England, both directly as well as indirectly, it is clear that merely the relative movements of 'franc mark' or sterling-rupee exchange cannot adequately account for gold movements." If Professor Adarkar is serious in disproving my point or thinks he can I would ask him to point out how, (by taking into account a hypothetical illustration) the *triangular* or *multilateral* transactions, would alter the correctness of my proposition. The multilateral transactions he speaks of I have already taken into account. (See p. 6, first para of my article, *Indian Journal of Economics*, July, 1935.)

It is evident from more than one point he tries to make in his reply that he is attempting to criticise things without understanding them. The significance of my answers to the points raised would be more clear by comparing the corresponding parts of his Gold Export Fallacies references to which I shall give in the margin as I proceed.

Section II. § 3.[1] If the Circle of Exchanges Nos. 1 and 2 are elementary knowledge, as indeed they are, one is curious to know if the propositions based upon them are also so, in which case does he accept them? But if he has to defend the absurd position he has taken I am afraid he cannot. Whether the Circle of Exchanges apply or not to a hundred other situations is entirely beside the point. For the purposes of the issue under discussion it is enough that they hold true of gold.

Section II. § 4. Professor Adarkar has awkwardly stumbled while dealing with the issue of gold limits. Gold limits as defined by me in the article are not "the limits within which the *prices of gold* in the two markets can move." The concept refers to the situation in which two unstable currencies are linked to one another at a fixed ratio. It may do him some

1 These subsections refer to Professor Adarkar's Gold Export Fallacies.

good to go over the relevant portion of my article, once again. It is not that gold limits have " only something to do with the (fixed) exchange ratio; " fixing of the ratio is vital to the concept.

Just as there are two gold points there are also two gold limits. It is absurd to say that there is no " lower limit." In the hypothetical illustration given by me in the article (p. 6) the German *gold export limit* is reached when $(a-b) = (x'_1 + \alpha)$ and the German *gold import limit* would be reached when $(b-d) = (x'_1 + \beta)$. It is clear from the operation of the Circles of Exchanges and my explanation of the exports of gold from India that a reduction of the ratio to 16d. should stimulate gold exports and not the reverse. Evidently Professor Adarkar's logic has somewhere gone upside down and the very Circles of Exchanges which he considers to be elementary knowledge would seem to have given him the slip!

Section II. § 5. This section of the Gold Export Fallacies is yet another illustration of Professor Adarkar's logic doing *Sirshasan* somewhere!

If gold flows from Germany to France subsequent to the mark being linked to the franc at 5 frs. to a mark both the currencies being off sold, by my conclusion 3 it is clear that, it is an indication of the mark being undervalued by the currency authority by fixing the exchange at 5 frs. Gold would flow from France to Germany in the event of the franc being undervalued by the link at that rate.

Continuous exports of gold and the exchanges being at or above the upper sterling point are the two unmistakable symptoms of the rupee having been undervalued at 18d. sterling.

That gold would have tended to go out of the country even if the rupee were not linked to sterling after our departure from gold is probable enough. Hence it was that I suggested an embargo after delinking. But this does not prove that the link had nothing to do whatever with either the *volume* or the *pace* of gold exports. The relationship of the fixed ratio to this would become apparent on examining (1) the effects of a lower ratio than 18d. (also fixed) on the *volume* of gold exports and (2) the effects of the exports of gold on the exchange rate if the latter were not fixed. That the fixing of the ratio at say 16d. instead of 18d. would have stimulated the exports of gold considerably is admitted by Professor Adarkar. Perhaps he had done this in an unguarded moment not knowing that thereby he had murdered his own thesis. Even as the undervaluation of the rupee to 16d. would have given a further impetus to gold

outflow its undervaluation to 18d. was responsible for it in no small degree. Indeed this is what I have shown in my conclusion 2. That the rupee was undervalued at 18d. is clear from conclusion 3.

If the exchange rate was not fixed, the rupee being delinked from sterling, the exports of gold as they took place would have tended to raise the exchange rate thus causing a corrective to the outflow. Under the circumstances unless the currency authority deliberately expanded currency issue the exports of gold would progressively decline as the exchange rate rose above 18d. This tendency was prevented from operation by the link with the result that the exports of gold would stop only if and when sterling ceased to depreciate, remained stationary or appreciated, all in terms of gold and the rupee price of gold correspondingly adjusted itself, or when all the available gold was exported from the country. Thus we see how the rupee-sterling link has proved itself to be the villein of piece.

It was the Government that was responsible for undervaluing the rupee for, it was they who fixed the exchange rate at 18d. which was below the real value of the rupee.

If delinking would have raised the sterling value of the rupee to a level detrimental to trade there were ways to prevent it.

Section II. § 6. That in practice " The unplanned and erratic inflation " of currency was in part neutralised by hoarding of notes and rupees is no justification of such expansion for a planned and systematic reflation was well within over powers after delinking.

Any efforts at neutralising the expansion would accentuate the rate of flow of gold, for to that extent it would prevent the adjustment of the gold values of the two currencies to within their gold limits. If, therefore, the Government took steps to prevent inflation by " selling securities and borrowing in the market " they only remained true to their policy of making India vomit as much of her gold as possible and for the benefit of Great Britain. The raising of Indian prices to the desired degree necessitates the acquisition of monetary autonomy for which delinking is indispensable.

Section II. § 7. Quantitative estimates of the support given by the rupee to sterling it is impossible to make. That support was given, and was considerable in degree is clear enough from what I have said on the point in the article.

The term sterling area is being used indiscriminately. None of the countries in this area except India and the dependencies had by law *linked*, that is to say, *chained* their currencies to

sterling. Only by appropriate currency and exchange manipulation they have fixed the exchange value of their respective currencies in relation to sterling, most of them at a somewhat lower level to that of sterling (speaking in terms of depreciation). Also in most of them there exist restrictions on the exports of gold. Thus in the case of these countries the Circles of Exchanges are not free to operate and therefore the support given by them to sterling is both uncertain and not appreciable. In any case it is not involuntary as in the case of India. The undervaluation of the rupee and the link force India to buy sterling and thus support it. The rupee being legally chained to sterling and its gold value being higher than that of (18d) sterling the currency authority in India is forced to buy sterling and thus act as a prop to it. In the case of other countries in the sterling area the legal link being absent even if the gold value of any of their currencies were higher than that of sterling they would not be forced to buy sterling. For they are not obliged by law to do so. In their case, in such an event, it is possible to maintain the relationship to sterling of their currency by one or more of three ways: to press down the value of their currency to that ratio they may (1) buy gold in the market, (2) buy paper other than sterling and (3) buy sterling. It is only if they take recourse to the last alternative and to the extent they do so, they would be supporting sterling. But national self interest would induce them to give first preference to gold an appreciating commodity, next to their own securities and last to depreciating sterling paper. In the case of India, however, the first two alternatives were ruled out in preference to the third. Thus the position of India is fundamentally different from that of other countries in the sterling area.

That the several currencies enumerated by Professor Adarkar "possess a greater intrinsic strength than the rupee" is a wild statement and requires proof. If the respective degrees of their depreciation in terms of gold can be taken as an index of their intrinsic strength that description today would hold true of none of them. They have all depreciated even more than sterling. In any case none of the currencies mentioned by Professor Adarkar being legally *linked* to sterling, they cannot be of any great service to it whatever their intrinsic strength.

How many other factors and currencies besides the rupee have supported sterling is beside the point. For instance, the support given by the rupee is not either rendered unreal or its importance minimised by pointing out that the British exports of

manufactures, shipping, insurance, governmental and other sources etc., have prevented the exchange value of sterling from coming down to zero.

Whatever the causes of the fall of sterling in November, 1932, it is clear that in the absence of the support that the rupee gave to it, it would have fallen to a lower level still.

That the support given by the rupee to sterling is now found to be more than what was needed, even if true, does not disprove the fact of the support.

Section II. § 8. Professor Adarkar's explanation of the Ordinance is even more funny than that of the Government, which at least had an appearance of plausibility in the eyes of the layman.

If he tried to find out the conditions under which "speculative cross-movements of gold" can take place from England to India he might perhaps arrive at the correct interpretation of the ordinance. It is patent, however, as is evident from conclusion 4 (a) of my article that the virtual embargo on the imports of gold into India imposed by he Ordinances was meant to prevent the anti-clockwise movement of the Circle of Exchanges and the rupee proving a drag on sterling.

The rise of the rupee from 17·8d. to 18·9d. was symptomatic of its undervaluation at 18d. It was indicative of the attempt of the rupee to reach Professor Adarkar's ratio of 2s. 6d., but which the link prevented it from doing.

Section II. § 9. If my algebraical examples are wrong I would ask Professor Adarkar to work them out correctly. X' marks refer to, as defined to the mark price of gold in Berlin. That dealings in gold allow comparatively a very small percentage of profits practically at all times is a commonplace of the Bullion Exchange over which Professor Adarkar wastes so much unnecessary breath.

If X is not greater than $5\ X'$ no exports of gold, as is self-evident (for, the bullion dealers as observed by me do not get busy for nothing), can take place. To say that tht two quantities are identical, even when gold is being exported is nonsense.

The loss to the sellers arises from the very fact of undervaluation, resulting from the exchange fixation. For, under it equilibrium between the internal and external prices is acquired, not by a rise in the exchanges as would have been the case if exchanges were not fixed, but by a rise in prices *via* the currency authority. The loss to those that sold gold, before this price

adjustment, is therefore inevitable. Undervaluation being a certainty and a reality the losses suffered are also real and not a will-o'-the-wisp.

Whether $21\frac{1}{4}.\ \frac{10}{100-l}$ > or < $K.\ \frac{100}{100+b}$ that the sellers of gold have lost in terms of commodities also follows from the conclusion that he would be getting fewer rupees than he should. For, if so he should be getting fewer commodities also.

The example worked out by Professor Adarkar in the footnote is unacceptable statistically. It is necessary to adapt the index numbers which he has not done. Also it is wrong to presume that Indian prices would have fallen in the same proportion or less or more than that of Holland. The statistical difficulties, if at all we intend to be honestly scientific, of estimating what the rupee prices would have been if the rupee had continued on gold, are too great to be ignored light-heartedly as Professor Adarkar seems to have done.

Section II. § 12. That sterling has proved itself more stable in terms of commodities than gold is no argument for parting with an appreciating commodity gold for a depreciating commodity, sterling. If the salvation of the country were found to lie in depreciating the rupee to the level of sterling the policy advocated by me makes it perfectly possible. To effect this it is absolutely unnecessary to chain the rupee to sterling.

Section III. I have, I think, very little objection, if at all, to what is contained in this section. But in an academic journal it could have been said in far fewer words.

Section IV. In this section Professor Adarkar is engaged in the Quixotic enterprise of fighting windmills and herds of sheep! He has laboriously assembled the utterances of politicians and remarks in the newspaper press, which under the present-day conditions in India cannot be expected to be of a high order, and is brandishing his sword and shield with a flourish! I do not wish to—even apart from the question of time and space—disturb him from this glory!

Section V. § 16. Here Professor Adarkar has unnecessarily wasted so much labour in proving what is only too obvious. When the rupee is chained to sterling the rupee prices of gold should (exceptions apart) necessarily dance to the tune of the cross-rate: sterling dollar rate, when dollar is on gold or sterling-franc rate when the franc is on gold. The cross-rate only helps in finding the gold value of sterling (the inverse of the sterling price of gold) and, since rupees are but pieces of 18d. sterling, the gold value of the rupee (the inverse of the rupee price of gold).

Indian prices of gold would cease to depend on the cross-rate the moment the rupee-sterling link is snapped. The Indian price would then depend upon direct rupee-franc quotations or direct rupee-dollar quotations, whichever currency may be on gold.

Section VI. § 18. Professor Adarkar does not seem to realise that consistently with maintaining the link an embargo on gold exports is an impossibility. It would interfere with the operation of the Circle of Exchanges and snap the link. It would appear that what he considers to be elementary knowledge gets clean out of his mind on all critical occasions. Or is it that he lost his moorings in his love for verbiage?

No businessman with any commonsense left in him will invest his funds in sterling instead of in gold if he had the option during the period when sterling has been depreciating and gold appreciating and at rates far in excess or multiples of the interest that may be earned on sterling securities.

An embargo on the imports of gold at a moment when gold cannot come into the country suggests the quixotic.

Section VI. § 21. Most of the questions raised here are answered in sub-section 4 of section III of my article. Expansion caused by buying gold after delinking can be neutralised if desired by the methods suggested therein, while if an attempt is made for such neutralisation under the link, it would lead to only a further and quicker drawing out of gold and the consequent further expansion until the attempts are given up.

The floating of an " equal loan at home " was meant for " neutralising inflation to the desired degree." The policy had other advantages besides (see p. 24 of my article). Gold if accumulated would have cleared, more of our sterling debts, since it was progressively appreciating in terms of sterling.

I have nowhere suggested that the gold bought should be permanently bottled. On the contrary I have advocated its sale to the ouside world after finally fixing the price of gold, *i.e.*, after stabilisation or even before, if found necessary. (See p. 22 of my article.)

If our co-operation be needed in that direction we shall no doubt all of us join in a discussion with the economists of Cambridge and elsewhere, which under the present-day conditions is bound to be purely of an academic character, on the question of a perfect monetary standard for India and the world. But whatever the outcome of this, so far as the immediate problem of stabilisation is concerned, it is clear that the gold standard (may be with some modifications if international agreement on

that is possible), is the objective of most if all the currencies off gold to-day, however much the discoveries of theoretical economics, may warn the world against it. Return to gold as a monetary standard is not ruled out even in enlightened England. Indeed she has been trying to stabilise exchanges in terms of gold currencies although not with a rigidity. And having had our fingers burnt several times now, it is best we followed gold at a convenient parity and time instead of sterling. But at the same time we should certainly have no objection to keep an eye on the development of an agreed formula among theoretical economists on an ideal monetary standard.

The policy advocated by me in the article resembles in many respect the policy followed in America on that country's departure from gold. When America went off the gold standard she imposed an embargo on gold exports and the Treasury bought all the available gold. The buying of gold by the Government caused currency expansion and the consequent depreciation of the dollar. And when the dollar reached the level at which it was thought proper to stabilise, the restrictions on the exports of gold were lifted and the Treasury expressed its willingness to sell the gold. Since most of the gold bought prior to stabilisation was at prices lower than 35 dollars the transaction yielded to the U.S. government considerable revenues by way of profits which were used for relieving the burden of the national debt. In March, 1934 Mr. Morgenthan, Secretary of the U.S. Treasury applied no less than 675 million dollars (about £138,000,000) of the profits on gold made by the Treasury to pay off 600 million dollars worth of Consols and 75 million dollars worth of Panama Canal Bonds.

Similar profits which India could have earned, if the Government had followed the policy advocated by me and the Indian public generally, actually were spilt. But that was so only because it served their *matlab*.

If instead America had chained her currency to sterling she would have lost all freedom of currency policy, control over her currency supply, the parity at which to stabilise etc., and would have lost all her gold without her Treasury getting the benefits of its appreciation. But if America were a dependency of England she would have been forced to adopt the policy that we find forced upon us today and who knows there would then perhaps have been intelligent men in America too working under a subtle spell, as many in India do today, and supporting the Government's policy, while deceiving themselves into the belief that they do it out of pure scientific and patriotic motives!

A SCHEME OF ELEVATORS FOR INDIA

BY

P. SATYANANDAM, M.A., GUNTUR.

The Central and Provincial Governments of India have fully realized the supreme need for Governmental action to improve the marketing conditions of agricultural products in India. Mr. A. P. McDongall, C.B.E., Chairman and Director of Midland Arts, Limited and one of the foreign experts appointed by the Government of India to sit on the Indian Banking Enquiry Committee, 1931, says that there are only two ways to increase the prosperity of the ryot in India. They are Co-operation and Marketing. He suggested the establishment of a Central Marketing Board in India. The Central Government has taken definite steps in appointing a Central marketing staff consisting of an agricultural marketing adviser, seven senior marketing officers and ten assistant marketing officers, and this staff is attached to the Imperial Council of Agricultural Research.

The work of the central staff, in conjunction with the provincial marketing staff, falls into three main divisions, namely, investigation, development and grading and standardisation.

In this article we are concerned with the last activity of the central staff, namely, grading and standardisation. Grading necessitates storage and preservation of commodities.

At present in India, grain is generally stored both in bags and in bulk, in warehouses of defective construction. One system in common use is storage in pits. These pits are lined with straw and some times with a plaster of mud or cowdung. The grain is poured and is protected above by a covering of earth and thatch. Grain in this suffers from mould which results in discoloration and bad smell. There will be a considerable loss to the grain adjoining the wall, due to dampness but this grain is less liable to attacks from weevil.

Another system in use is that the grain is placed on a layer of straw and covered with a similar layer on the sides and the top. The grain stored thus is ravaged by weevils which infest the walls and roofs.

A third system is to store grain on plinths in the open, protected by a tarpaulin covering only. The disadvantages of this system are too many and too obvious to require enumeration.

The present system of storing grain demonstrates the imperative necessity of devising more efficient conditions. It was pointed before the Royal Commission on Agriculture in India by Mr. R. E. Grant, of Govan Brothers Ltd., Delhi, that the wastage due to the ravages of weevils in grain stored amounts to 2½ per cent per annum of the grain stored, while wastage on grain stored in pits by deterioration is no less than 5 per cent. In addition to these losses, depreciation in quality of pit-wheat reduces the value of such wheat by one anna per maund.

Taking a conservative estimate on the above basis, the annual loss under present conditions amounts to some two and half per cent of the total crop.

If the total wheat estimated in an year is 10 million tons, the loss that year on wheat alone, due almost entirely to lack of efficient storage and transit system, amounts to no less than 250,000 tons, worth over three crorés of rupees annually.[1]

Messrs Henry Simon, Limited, S. C., has outlined a rough scheme for the provision of elevators for India. As is described by them the elevators required are of three distinct classes:—

(1) Elevators for receiving grain at country stations, storing the grain until such times as it can be transported to the large stations.

(2) Terminal elevators at the larger stations and consuming centres. These would be of larger capacity with provisions for storage when required to a much larger capacity.

(3) Port elevators for receiving the grain from the railways and loading out to steamers for export.

In the United States of America and also in Canada, the elevators are chiefly constructed in country stations of timber but concrete has been used in Australia and South Africa. The principal reason for differences in practice is that in North America the grain is kept separate in the silo bins for each farmer, consequently a number of small bins are required, whereas in Australia the grain has been stored in large bins on behalf of the Government, and is not separated for each small producer.

As for the relative advantages, concrete bins are cheaper if built in large bins, but timber is cheaper for the small bins. Concrete has the advantage of being fireproof and also impervious to the attacks of insects. In a country like India it is economical to use timber at smaller stations, and concrete bins for terminal and port elevators. A depreciation of two and half per cent

[1] Evidence by Messrs. R. E. Grant Govan and S. A. Bunting. Page 24 of the Evidence taken in the Punjab, *Royal Commission on Agriculture in India*, Volume VII.

should be allowed on the concrete construction, but five per cent should be allowed on the timber construcution. It is also necessary to allow an insurance premium on grain stored in timber bins, whereas the grain stored in concrete bins can be safely carried without insurance. In North America a standard small country station elevator has a total capacity of 1000 tons divided into holdings of 50 tons each. The concrete bins built in Australia hold 250 tons each, and the elevator consists in one or more of these bins. The bins in Africa hold like those in Australia, 250 tons each, and the elevator consists in one or more bins as required. The Cape Town port elevator, with a storage capacity of 30,000 tons, and 33 country elevators in the maize area of South Africa, with a total storage capacity of 106,600 tons, were opened for normal working in August, 1934, while India shows a solitary exception in an isolated experimental silo erected at Lyallpur by the Punjab Government.

The cultivators in the country districts will bring the grain to the nearest country elevator either in sacks or in bulk. The grain is emptied into the elevator where it is automatically cleaned, weighed and placed in the bins. The mill-dust resulting from the cleaning operation will be returned to him. He will pay the charges and receive the company's receipt for the whole amount of grain placed in the bin.

The grain in the country elevators is either sold to the grain merchant or is transferred to the terminal elevators by the country cultivator. It is generally the grain merchant who buys, and produces his receipt in return for which the grain is handed over to him. He then transfers in bulk railway wagons to a nearby terminal elevator, where it is similarly stored, and he is given a receipt. He may then sell the grain to the retail dealer, who in return produces his receipt, and the grain is handed over to him in bulk or in sacks as he may desire. These terminal elevators would be built in central position where the grain is consumed in large qualities. These elevators should be constructed of reinforced concrete. This is cheaper if the unit is larger and there is no fire risk or upkeep of building required. These terminal elevators would be equipped with appliances which would be useful for receiving grain from carts or railway wagons and would be suitable for discharging from the elevators back to railway wagons for transit to port.

The merchant who has transferred his grain to terminal elevators may desire to take advantage of the better prices in the foreign markets and transfer his grain to a port elevator and thence ship it to the foreign market. These port elevators

would be built similar to the terminal elevators described above but equipped with more elaborate loading appliances and be usually of a larger holding and handling capacity.

Such is the scheme presented and advocated for India, by Messrs. Govan Brothers Ltd., Delhi and Messrs. Henry Simon, Ltd., S. C. They point out several advantages of the scheme as compared with the present practices of storing grain in India. The most important of the advantages is that all wastage now connected with the present practices of warehouses is reduced to a minimum. The grain no longer lies in dirty pits or in warehouses, suffering from the attacks of the weevils and damp. It is stored in weather-proof and insect-proof bins. It does not lie for days on railway platform exposed to the weather and to the depredations of birds and insects. The saving thus effected is enormous.

The prosperous cultivators in India under present conditions hold grain until prices are favourable, but while awaiting this moment their grain is undergoing deterioration and wastage which will be avoided by the use of elevators. The poor cultivators in India would be able to hold their grain in the elevators till they are able to realise better prices for they would obtain an advance on their granary receipts of at least 75 per cent of the value of their grain from the Co-operative banks or town banks. They would not be forced to sell their produce as soon as possible in order to pay their revenue and other obligations. This system encourages the holding of crop for a rise.

Among the other benefits enjoyed by the cultivator may be mentioned the prevention of unnecessary transport to and from the markets, as under present conditions owing to the absence of buyers or disagreement as to price. Elevators will enable the cultivator to cart his grain to the district town and deposit it there until such time as he wishes to sell. The elevator system, therefore, would immensely benefit the Indian agriculturist.

Further elevators will be of immense value to the country in general by increasing the export value of grain due to its proper hygienic storage, cleaning and mixing and the possibility of discharging it into ships in bulk.

One of the greatest advantages of the silo system is the elimination of all unnecessary manual labour. The grain in the elevator system, from the time of its arrival at the elevator till it is handed over to the final purchaser, is never touched by hand.

There is saving in the cost of transportation and handling of grain. The handling cost at elevators will be considerably less than the handling cost of bags, and also the handling will be less

laborious to the men doing the work. The cost of freight on the railways and on the ships would be reduced because there will be saving in space at least to the extent of 10 per cent.

Accuracy of weighing and cleaning of the grain are secured by the elevator system. Accuracy in weighing is much greater because the grain can be passed over either automatic or hand-operated scales and cannot be fixed. The grain can be cleaned by machinery which will show up any foreign substances placed in the grain. This saves freight on such material as sticks, stones, straw, dirt, etc.

In view of the advantages enumerated above it is desirable to install a complete system of elevators in India.

The installation of the elevator scheme has certain difficulties and an economist should take them into account before the scheme is launched. The introduction of this scheme would lead to the withdrawal of the demand for bags for the handling of grain and this would affect adversely *pro tanto,* the vast Jute trade. There is bound to be a strong opposition from Jute manufacturing interests to the proposal to build elevators for there would be a reduction in the use of carrying bags in this country. It is argued that the loss due to the reduction in jute trade is not comparable with the benefit which will be secured by the saving of cost. Moreover, the demand for jute in other directions, owing to the increased cost of tin and other packing materials, might more than compensate the loss in this important industry. It can, therefore, hardly be supposed that the country should forfeit the benefits of a granary system merely to retain for jute trade an appreciable market.

For the elevators, so far as they would be designed to deal with the export trade, must rest upon the assumption that a steady export trade will be maintained and that there should be an exportable surplus of grain in India. It is necessary to have annual exportable surplus, to maintain a sufficient acreage under grain. A considerable capital sum has to be invested in elevators designed to facilitate the export trade in grain. Unless there is surplus production for export, investment in elevators is not worth while. There is likely, in the future, to be sufficiently constant surplus for export. A huge new area is developed in the Punjab and other parts of India and various projects are undertaken and some portions of these areas must be sown with wheat and other grain. There must, therefore, be an enhancement in the surplus available for export.

But the experience of the pre-War and post-War periods is different in wheat trade due to other causes. The pre-War

export from Karachi averaged a million tons from 1910 to 1914. In post-War period exports from Karachi, from 1918 to 1926, were only 327,000 tons. They had fallen off. This drop was due to the extra demand in the country, the people are eating more wheat and the standard of living generally has risen. In spite of this demand for consumption the country can hope for a constant supply of surplus grain for export.

Another difficulty is whether an Indian cultivator will have sufficient faith in an elevator system to hand over his grain to be mixed up in bins with other peoples' grain. If a system of pooling were to be adopted in the case of elevators the cultivators would be to a certain extent shy of using the elevator. The notion of his own grain losing identity would be a strange thing to him. Though it is desirable to supply the unit storage for each cultivator, it is very difficult. This view is tenable to the extent that the cultivator will not be induced to put their grain into a general bin. But the unwillingness of the cultivator might be overcome by vigorous propaganda.

These difficulties can, to a large extent, be overcome by governmental aid. The first essential is that the whole system should be approved by the Government, actively supported by the Government, and its administration guaranteed by the Government. Official support is necessary for providing facilities for the acquisition of land, guaranteeing receipts and supervision, and freedom from competition.

Success of silo system depends on the location of elevators in suitable places. They must be on a good road and must adjoin the railway. In certain cases, a site suitable for elevator may be unobtainable except at a prohibitive price. In such cases the assistance of Government in acquiring land at a fair price is desired.

An Elevator Company will be started. The Company has to issue receipts for the grain received at a particular elevator. The receipt is a guarantee of good faith of the Company that the same quality and quantity of grain received would again be delivered on surrender of the receipt. The Indian cultivator, being the most conservative of human beings, might hesitate to accept the receipt issued by the Elevator Company unless such receipts bore the Government guarantee. Such official guarantee would ensure the stability and success of elevators in India. The Governmental guarantee is also necessary in order to make these receipts accepted in financial circles. Some elevators have to store grain to the value of many crores of rupees and the banks and the financial houses

in the country would hardly be expected in the initial stages to accept the company's receipts as security for any financial transaction. Further Government would be required to provide, by legislation, for the supervision, administration and management of the granary system. Perhaps Government would be required to actively interfere and inspect the company's affairs.

The Government will also guarantee the freedom of the Company from competition. There should be a guarantee from the Government that any other company desiring to imitate the pioneer Company will not be afforded support from the Government, at all events for 25 years. The newly established company should be reasonably protected against unfair competition.

Co-operation of railways is another essential step for a successful working of the elevator system. The Railway Board Committee had a survey on the problem of elevators in India in 1909. The bulk of their evidence more or less is in favour of grain elevators. It was as a result of that that a start was made at Lyallpur. Railways would derive the largest benefit from the elevator system. The economies which would result from this system would, to a large extent, go to the railways. The aid of the railways for the success of the elevator system is secured for the provision of bulk transit wagons, adequate siding facilities and, wherever necessary, a lease of land adjoining the railway. It is suggested that the assistance from the Railway Company should be secured by the provision of reduced rates for transit of grain in bulk. It is not possible to work the system of country elevators without the active co-operation of the railway. It would be better to entrust the railways with the construction and operation of this system of elevators as most of the railways in India are state-owned. This is to say, the elevators shall be state-owned.

Propaganda and collection of information are two other essentials for the success of this or any other scheme of improvement in the department of agriculture. A vast amount of information will have to be collected before it is possible to consider the final details of the elevator scheme. Further the government officials, 'specially, those in the Departments of Agriculture and Co-operation should be instructed to explain to the cultivator the benefits which will accrue to him by an intelligent grasp of the opportunities offered by this elevator scheme.

RURAL DEBT STRUCTURE AND ADJUSTMENT IN AUSTRALIA AND INDIA

BY

B. G. GHATE, M.A., (Nag.) *London School of Economics.*

The problem of rural indebtedness has "for generations past, received the continuous and anxious thought of the Government of India."[1] Unfortunately public opinion failed to grasp the extent and magnitude of this evil till after the Report of the Central Banking Enquiry Committee. The influence and glamour of western industrial civilisation side-tracked political and economic activity into the channels of protective tariffs and bounties. The warning behind and the very hypothesis of the Indian Industrial Commission 1918-19, that "we take this opportunity of stating in the most emphatic manner our opinion of the paramount importance of agriculture to this country and of the necessity of doing everything possible to improve its methods and increase its output,"[2] were completely forgotten. Nothing since then was done to stimulate Indian agriculture. The policy of protection and bounties has focussed so much economic thought upon industrial development that very little, indeed, has been done to improve the present state of our decadent agriculture. The remark of Prof. Tawney regarding China applies with greater truth to India. "The disease of young China is its fever of imitation, and in programmes of industrial reconstruction it rages unchecked. Designed for America, for Europe, for the moon, for anywhere except the unhappy country on whose attention they are pressed, they rehearse the impossibilities with dreadful monotony, as if mere persistence in repetition would convert fancies into facts . . . . An intelligent nation need not copy slavishly the methods of other countries."[3] An intelligent nation that we are, we should realise that the time has now arrived for us to devote ourselves to a programme of agricultural reconstruction on original lines to suit the peculiar peasant conditions in India. It is our primary industry and its neglect will result in industrial disaster.

1 Royal Commission on Agriculture, 1928, p. 431.

2 Chapter II.

3 Life and Labour in China.

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The object of this article is to indicate in brief the problem of rural indebtedness in Australia; to clarify the essential differences in the debt structures of the two countries; and to give a sketchy account of the Debt Adjustment scheme enforced in Australia. We do not advocate that India should copy that scheme, but desire to indicate how Indian rural indebtedness has its own peculiar difficulties and to disprove the general fallacy that rural debt is the concomitant of every agricultural economy.

Origins and Effects of Rural Debt in Australia.

Rural debt in Australia " has its roots in the immediate post-War period when all governments embarked upon expensive settlement schemes financed by large public loans bearing high interest rates."[4] The decade 1920—30 was one of comparative prosperity and the Australian produce had good markets abroad. A variety of other causes also contributed to this debt: the generous terms extended to settlers by state governments; special efforts following the war to repatriate soldier settlers; and the influence of " Grow More Wheat " campaign.[5] Marginal lands when the price of wheat ruled from 4s. 6d. to 7s. were brought into cultivation. " Superimposed upon, and stimulated by, government settlement of ex-soldiers, migrants and local civilians, was not an inconsiderable volume of private farm sales based upon the high prices that ruled for wool, wheat and butter."[6] So feverish was this land settlement and farm extension activity that the acreage under wheat was nearly trebled. " Easy credit and High debts went together."[7] The difficulties that the American farmer had had to face during the land extension period before the war were forgotten. The optimism ruled so high that everyone seemed to believe that the high prices and the stimulated post-War demand for Australian produce would always continue. The crops following 1929 were also exceptionally good. All these factors combined in increasing the farm produce. According to Prof. Giblin " production of wool increased by 10 per cent between 1928-29 and 1932-33, of wheat

4 Round Table September 1935, p. 822.

5 Royal Commission on Wheat Industry in Australia 1933—35, known as Gepp Commission in First Report, p. 29.

6 Round Table, p. 824.

7 Gepp Commission.

by 40 per cent, of butter by 50 per cent, and farm production as a whole by 16 per cent."[8]

At the same time the production prices were falling continuously. Prof. Giblin estimates that the fall in production prices in 1932-33 compared with the average of the years 1924-25 to 1928-29 has for agricultural produce been 40 per cent, for dairying 37 per cent and for all farm production 42 per cent."[9] Although the early depreciation of the Australian pound tempered the effects of the fall, the export price over the last three years, with a stable Sterling Australian exchange, has fluctuated about an average of some 35 per cent below pre-depression figures."[10] It was natural that with such a catastrophic fall in prices, the effects of the burden of debt began to be felt and the wheat-growers soon realised that they were carrying on at a loss. The Gepp Commission found that "only 40 per cent of the wheat holdings can still carry on making some profit. The remainder of the industry is involved in a continuous loss of varying magnitude;" and further "the investigations in the cost of production have suggested that apart from labour, the interest on borrowed capital is the largest single item in the costs of an average wheat grower."[11] They also estimated that about 1s. per bushel went towards interest charges and as lately a bushel fetched only 3s. in the market, the interest charges came up to about one-third of the total cost. The Australian governments soon realised how grave the situation had become and various attempts have been made to set things right. Bounties on production and acreage under wheat were given; railway and transit charges to ports were reduced; government dues were cancelled; debt moratoriums were granted and almost all possible remedies were adopted. As we shall show later, none of these methods proved to be of much avail.

Debt Origins in India.

The first outstanding feature of the Indian debt structure lies in the fact of its being an old debt. This feature has been the cause of much observation and a good deal of anxiety in the administrative circles for at least over a century. In an admirable article in the *Indian Journal of Economics* Mr. H. George Frank sums up the debt situation as early as 1818 in

8 Round Table, p. 823.
9 Economic Record, March 1935, p. 420.
10 Round Table, p. 823.
11 Gepp Commission Final Report, p. 99.

Mountstuart Elphinstone's time. The situation became so grave that the peasants rose in revolt against the money-lenders in the Deccan in 1874. Unfortunately there has been such little statistical material regarding the growth, incidence and effects of rural indebtedness that our conclusions are more or less mere guess work.

We have yet to have a Commission on Rural Debts and till then, we cannot have any notion about the relationship between the rate of interest and cost of production; between the peasant and the money-lender; between debt and total produce; between debt and the standard of living. The Banking Enquiry Committee had to survey all-India questions regarding Banking in general and it was hardly possible for them to collect all available information on rural indebtedness. But in respect of the effect of rural debt upon the farmer, it left a deplorable blank—unless the platitudes in paragraphs 82—84 be accepted as proven economic facts. We have thus no material on which to obtain an accurate notion of the rural debt structure in India; and unless it is done, most of our proposed remedies and the present legislation must end in failure. But we can, however, safely infer that bad marketing, backward methods of cultivation, lack of capital, low standard of living and chronic poverty are the necessary outcome of so much general indebtedness amongst the Indian peasants. Unlike in Australia, we have done nothing to subsidise and encourage agriculture. It is a well-known fact that the productivity of our agriculture is the lowest in the world and perhaps the poorest peasant also is to be found in India.

Differences in Debt Structures.

But from the small material available to us, due to the labours of the various Provincial Committees, we will tabulate below the differences in the two debt structures.

Australia.	*India.*
The total debt of only the wheat growers is £151 millions, *i.e.* about Rs. 210 crores in 1934.	Indian total debt is about Rs. 900 crores in 1930.
This debt is mainly productive.	Most of it is unproductive.
Farms possess large capitalized stock and are more than 100 acrege each. Hence debt-repaying capacity is large.	Small-scale farming without any capitalised stock except a few cattle. No means of paying debts.

Debt origins mostly after 1920 and even the old debt is productive.	Debt is century old.
Secured debt is 93 per cent of the whole.	Secured debt hardly 50 per cent.
More than 60 per cent debt is either directly from Government or from State Banks.	Mostly of the private money-lender origin, this debt is the cause of a good deal of corruption and debased practices fatal to the peasant.
A concerted agricultural policy like bounties, reduced railway fares, State loans, cancellation of State dues, etc., make the burden of debt much more bearable and easier.	As no such facilities are available and no legal aid can be obtained, the peasant is entirely at the mercy of private dealers.
Various States have cancelled debts incurred during inflation.	Money-lenders cannot give such concessions.
The rate of interest according to Gepp Commission was between 1 to 3 per cent.	It differs; but is usually 12% and is much more in a majority of cases where it is between 18 to 36 per cent.
Apart from labour, debt interest is the highest single item in a peasant budget.	We have no statistics. But from the researches of Dr. Mann and the Punjab Economic Enquiry Committee, we can infer that agriculture is being carried on at a terrific loss.
The Gepp Commission realised and recommended that the key to debt adjustment lies in the hands of Government and the problem can be grappled effectively by a commonwealth-wide remedy and legislation.	The Indian public hardly realises the importance of indebtedness in economic life and no all-India attempts have been made to solve this problem.

The differences in debt structures bring out only too clearly how the Indian debt problem is much more complicated and how the remedies for it will need not only cautious attention but must be slow and piecemeal.

Debt Adjustment in Australia.

We have already stated above how the various State Governments have been doing their utmost to solve the debt problem

and how various attempts in the farm debt moratoriums, "stay orders," bounties, reduced railway charges and remission of Government dues had only succeeded partially. The States could at best make the peasant situation bearable, but never succeeded in wiping out the debt. The lesson for India lies in the recognition of this fact. No isolated attempt can ever tackle this problem and we will have to adopt an all-India remedy for it.

On the recommendation of the Gepp Commission, Dr. Earle Page, the acting Prime Minister, introduced the Debt Adjustment Bill in March 1935. As this constitutes a new approach to the problem of debt adjustment, based upon a concerted and uniform action all over the continent, and involves a relief fund of such magnitude that no parallel for it can be found in agricultural history, we had better study some of its more important provisions.

(1) The Commonwealth Government would raise a loan of £12,000,000 (about Rs. 16 crores) and distribute it to each state according to its need as decided by the Commonwealth Statistican.

(2) The farmers were grouped into three separate classes: (a) those, about 40 per cent, who are free from debt and can manage without help from this loan; (b) those, about 35 per cent, who after receiving help from this loan would be solvent and carry on their business at a reasonable profit; (c) those, about 25 per cent, whose case is hopeless and whom nothing can help. These farmers would have to be exempt from this scheme and the states would help them to discontinue wheat cultivation and try to absorb them in some other industry. This scheme is, therefore, most severely practical; only a small selected set of farmers would benefit from it; and it does not throw off good money on bad cases—so that it can concentrate on a small section whose economic rehabilitation would give a healthier tone to all the rest of the peasantry.

(3) States will be given these grants, provided they agree to accept the following terms: (a) that before they become eligible for the loan, they set up a definite debt adjustment machinery and announce its personnel; (b) that they do not charge any interest to the farmer, but promise to pay it from their own budgets; (c) that they bear the cost of administering this loan and pay the salaries of expert staff and office expenses from their own budgets; (d) that under no circumstances do

they appropriate the proceeds of this fund to balance their budgets; (e) that this loan would be used only to settle private debts and not for the repayment of state dues, state loans or taxes. These provisions would indicate how the strictest possible economy is contemplated and how the burden of expenses will have to be borne by the state and not by the farmer.

(4) The loan will not go into private hands, but will always be administered by state agencies.

(5) The farmer will receive the loans without any interest and the terms of repayment will be made as easy as he can ever secure from other sources.

Nor is this all. There is every likelihood that the recommendation of Gepp Commission that " the Commonwealth should legislate to deal directly with the farmers, should set up Commonwealth Debt Adjustment courts, presided over in each state by a judge with two technical consultants and should unify the whole administration by a commonwealth organisation " will soon result in further legislation. Thus a vigorous programme of rural reconstruction has been started in Australia.

Lesson for India.

We do not advocate that we should slavishly copy Australia. Their debt adjustment scheme may however suggest to us an Indian remedy. It is unfortunate that hardly any data exists on which we can base our notions of the Indian rural debt structure. The foremost need of the time today is the appointment of a strong Commission to investigate the problem of rural indebtedness in Indian economic life with a view to establish its relationship with the cost of production, land revenue, standard of living and methods of cultivation and marketing. Various Provinces have established Debt Conciliation Boards, but they will soon realise that this is not a purely legal question. The facts of economics are so closely allied with it, that only on a legal basis they will fail to do any good to the peasant; and by bringing these Boards into disrepute and suspicion, they may harm the very cause of the peasant which they are so anxiously espousing. And, no economist can on the existing insufficient and unreliable information draw any programme of debt settlement. Besides, the problem of rural indebtedness is so very closely allied with rural credit, that unless along with the Debt Conciliation Board the Provincial Governments set up a healthy rural banking centre, they will not succeed in wiping off old debts. Indeed,

this problem is so complex and its repercussions so wide and important, that we would strongly advocate thorough investigation into every aspect of it, before any legislative remedies are adopted.

Having obtained all relevant data, the work of debt settlement must be something alike for all the parts of the country; and we cannot obtain this unity unless the Central Government takes a lead.

Nor would debt conciliation be of much avail unless by an increase in productivity and purchasing power, we root out the very cause of indebtedness. It follows, therefore, that no remedy for rural indebtedness will be efficacious which does not at the same time provide for an all-round development of Indian agriculture.

We would also like to suggest that under the supervision of the Central Government every Province should organise a new branch of civil service with an exclusive charge of keeping rural statistics, combating indebtedness, organising marketing and giving free medical and veterinary advice. Ultimately, the wealth of India lies in the village and by a reconstruction thereof, can we hope to come into our own.

SOME BASIC PROBLEMS OF DISTRIBUTION

BY

J. K. MEHTA,

University of Allahabad.

In the course of discussions on problems of distribution questions which have often been raised are (1) Does a producer sell his output at the marginal cost of production or the average? (2) If he sells at the marginal cost, does he get a surplus above his cost, known as producer's surplus? (3) If he does, can we conceive of any peculiar function of the entrepreneur which may be said to earn for him this surplus? (4) Lastly, if the factors of production are paid at rates determined by their marginal productivities, how can one be sure that the entire produce is absorbed by such payments? If it is not absorbed, is not a surplus left over as the residual earning of the producer?

These questions have been directly or indirectly answered by such writers as Wicksell, Wicksteed, Walras, Marshall, Pigou, Dr. Hicks and Mrs. Robinson.[1] But as these problems have never been taken up all in one place and discussed in a rigorous logical manner intelligible to non-mathematical minds,it is not surprising that the ideas of most economists on these points are not sufficiently clear. Unless these problems are discussed in relation to one another and the answer to each separate question judged in the light of the answers to the rest, the maze of somewhat confused ideas cannot be cleared.

One great difficulty in tackling these problems or following these problems or following their explanation is due to the want of precise notions of such terms as cost and profit. To this difficulty, great in itself, is added another caused by the failure on the part of the less mathematically minded people to recognise the fact that all productive efforts obey the laws both of increasing and decreasing costs. However, if these tendencies were taken for granted and the meanings of cost and profit fixed before

[1] Here, the reader's attention is drawn particularly to Wicksteed's *The Co-ordination of the laws of Distribution.* and *The Commonsense of Political Economy;* Mrs. Robinson's article on *Euler's Theorem and the Problem of Distribution* (The Economic Journal, September 1934) and her review of Wicksteed's *Co-ordination* in The Economic Journal, June 1933; and Dr. Hicks' *The Theory of Wages,* Appendix (i).

discussion, the reader would feel no confidence in the universality of final conclusions, since such a procedure would suggest to him that those conclusions were conditional to the assumptions which had been deliberately made or the peculiar conditions postulated by them.

It is therefore necessary, not only to let the fundamental assumptions be evident in our reasoning but to show, in the most obvious manner, how the other minor conditions postulated by our reasoning are tendencies inherent in our fundamental assumptions.

Let us now take up the problems at once. Factors of production can be classified into *land, labour, capital, organisation* and *enterprise*. If the entrepreneur, who is finally responsible for the business, gets some (producer's) surplus over and above what he gets as his share of wages for his labour, interest for his capital, rent for his land and salary for his organising ability, then the office of entrepreneurship becomes more attractive and alluring than that of any other factor. Hence, if such a state of affairs prevailed the labourers or organiser would make a shift from their position as ordinary labourers or organisers to that as entrepreneurs and by so doing restrict the supply of labour and organisation and raise their prices. This is understood when one remembers that as entrepreneurship becomes more desirable the cost curve of labour must be regarded as having risen. For, the cost of labour is nothing but the utility of its substitute, namely, entrepreneurship. Hence, the change over from labour to entrepreneurship raises wages and along with it the total cost of production reducing the surplus—the cause of this change over from labour (or organisation) to entrepreneurship. Moreover, this change over increases supply and thereby reduces the selling price of commodities produced so that the surplus eventually disappears. In the position of equilibrium, then, the labourer as a labourer gets more than before (though still a wage that equals marginal cost) and the entrepreneur less. Hence, labourers' position as ordinary labourers and their position as entrepreneurs become equally attractive.

It is to be remembered that entrepreneurship involves no *work*. Whatever work is commonly understood as being the duty of an entrepreneur is regarded by us as labour and the remuneration accordingly called wages. All other functions the entrepreneur may perform as an organiser or a risk-taker are similarly assumed to be remunerated by salary or insurance fees. No specific work is thus left over for the entrepreneur. He

merely assumes the position in which all his earnings as a labourer, an organiser, or a capitalist are received in the form of residual income.

Approaching the problem from another direction we can see clearly how the entrepreneur gets no surplus. The possibility of a surplus accruing to him is generally understood to arise from the fact that he so adjusts production as to be able to sell his produce at the marginal cost of production. In that case also the surplus can accrue only if the initial costs are lower than the marginal. But if cost includes all the elements of cost, as it should really include, then it is not difficult to see how the price must, in the first instance, equal average cost and not the marginal.[2] If the entrepreneur's remunerations as a labourer, organiser, risk-taker, etc., are reckoned in the cost, so that when the cost is covered he is amply remunerated for his work and risk, there is no reason why he should be allowed by economic forces to charge any price above the average cost. For, when cost is thus properly understood, it is clear that the entrepreneur performs no other specific function and can have a claim to no other kind of income. The productive system is, therefore, in equilibrium when the entrepreneur charges a price that equals his average cost, all possible elements of cost being included in his reckoning. If he charged a higher price, as should be natural for him to try to do, others would assume the rôle of entrepreneurs and thereby, increasing the supply, reduce the price to the point where it equalled the average cost.

It is, therefore, not correct to argue that as price equals marginal cost it cannot equal the average cost, when cost includes all elements including the earnings of the entrepreneur, commonly called profit. Obviously, therefore, the entrepreneur secures no surplus, the entire value produced being distributed between the factors that co-operate to produce it.

Our analysis of the problem so far has been independent of the rate of change of cost, so that whatever law the productive costs may obey, it remains true that the entrepreneur can get no surplus.

We have tacitly assumed the prices of factors of production to be given. But how are they determined? To discuss this problem we have to assume that the price of the produce is fixed. If the price is given, the entrepreneur as a bargainer with other factors will not pay a factor more than what it contributes to production. If he pays less he pockets the saving and in order

[2] It is shown later how price also equals the marginal cost.

to increase this gain he should employ more units of that factor; but the greater the number of units employed the smaller is the marginal contribution. In the limit, therefore, the payment equals the marginal contribution. If, on the other hand, a factor demands a higher payment the entrepreneur gains by reducing all those units of that factor which contribute less to production than what they demand as their remuneration. Eventually therefore, the prices of factors come to be stabilised at their marginal productivities.

Thus, taking up the problem piecemeal we have arrived at two distinct conclusions. First, that the price of produce equals the average cost and the entrepreneur has no surplus left after paying the factors of production (himself included) and, second, that the price of a factor equals its marginal productivity.

Now, taking these two propositions together we are able to say that when the factors of production are paid according to their marginal productivity the entire produce is exhausted and no surplus is left over for the entrepreneur above what he earns as a factor of production along with the other factors.

On the face of it this statement will appear absurd to those who, knowing that marginal productivity is less than the initial, have been accustomed to thinking that when each factor is paid according to its marginal productivity the entire produce is not exhausted and consequently the entrepreneur is left with a surplus. But the argument that the marginal productivity is less than the initial[3] contains nothing to disprove the proposition, that payments to factors made according to their marginal productivities will absorb the entire produce. As a matter of fact, the difficulty in understanding this point can be traced to the mistake of multiple counting which people make in calculating the entire produce.

Taking one factor, say, labour, its initial productivity is greater than its marginal. The entire productivity of labour is calculated by adding up the marginal productivities of all units. This, however, will be found to be the aggregate produce—the result of the co-ordinated efforts of all factors of production. Labour being an essential factor of production, when all labour is dispensed with the entire produce disappears. Hence, an attempt to calculate total productivity of factors in this way gives the aggregate output turn by turn as the total produce is attributable to each factor. The total produce of all the factors

[3] As a matter of fact, since production obeys the law of decreasing cost in the beginning, marginal productivity is not less than all initial productivities.

of production taken together, when thus calculated, would therefore amount to as many times the entire output as there were essential factors.

The argument, therefore, that as the marginal productivity of a factor is less than its initial productivity, the payment to factors of production adjusted to their marginal productivities cannot exhaust the entire produce and must consequently leave a surplus for the entrepreneur is founded on an erroneous method of calculating the total output.

But though this discussion has shown that there is no *prima facie* reason for supposing that payments to factors according to their marginal productivities would not exhaust the entire output, it has not in any way proved that payments so adjusted should exactly cover the total value produced. This cannot be proved independently of our first proposition that the selling price must equal the average cost of production. And it is on the strength of this proposition that we are able to maintain that the sum of the marginal productivity of each factor multiplied by the number of its units equals the total produce. The forces of free competition, the reduction or increase of the number of entrepreneurs and consequently of the amount produced, the increase or decrease of the number of units of the factors employed by an entrepreneur and consequently the decrease or increase of their earnings, bring about that distribution of factors of production between industries and, within an industry, between entrepreneurs which establishes the dual equilibrium, first, between the total cost and the total sale price and, second, between the total value produced and the sum of the marginal productivity of each factor multiplied by the number of its units.

We have by turn assumed prices of factors and the price of finished products to be constant and worked out on these bases the problem of the determination of the selling price of produce and the demand prices of the factors of production. This method, which may be called the partial equilibrium method, we may once more make use of here. Let us assume the price of the produce pre-determined for an individual producer and the prices of factors of production used by him, fixed by the total market demand and supply. Now, as he cannot vary these prices, he can maximise his earning by producing the most appropriate amount. This appropriate amount is naturally the amount the marginal cost of which just equals the unit price of produce. If it is greater than the price he can increase his income by reducing the output by a suitable amount. If it is below the price he can increase his earning by

producing a little more and earning the excess on them. Thus, in the position of equilibrium his marginal cost must balance the sale price.

Here is, then, our third main proposition. Taking this along with the first proposition we find that the price equals both the average cost and the marginal cost. Hence, we can say that in the long run all kinds of resources are so distributed between industries and productive units that a perfect balance is established between marginal cost, average cost and the price. Wherever this exact relationship is found wanting the position should be regarded as being out of equilibrium. But in such a case forces will continuously be operating to re-establish that equilibrium. If this relationship does not hold in the case of a particular firm it is obvious that it has not reached maturity.

We have come to a stage where the fact of equality of average and marginal costs needs some explanation. Average and marginal costs can be equal only under one of the two following cases. First, when production obeys the law of constant returns[4] and, second, when it obeys the laws of decreasing *and* increasing costs or increasing *and* decreasing costs. If it obeyed the law of either increasing costs only or diminishing costs only and not a combination of them, the average cost could not be equal to the marginal cost. As we shall presently see the equality of average and marginal costs is due to the universal laws of decreasing *and* increasing costs to which all productive efforts are subject. But the mere mathematical equality of the two costs, other considerations apart, can only suggest that either costs are constant or that they first decrease and then increase or first increase and then decrease.

If the examination of our propositions leads to this conclusion we cannot lie content by merely saying that therefore production obeys the law of constant returns or a combination of the laws of increasing and decreasing costs. We should show that there are some influences of the forces or conditions which have constituted the basis of all our reasoning so far which necessarily make all productive efforts subject to such laws. For instance, competition, mobility or any other such fundamental assumption should be shown to be invariably based on tendencies which necessarily make production operate under the law of constant returns or a combination of the two laws of decreasing and

4 Some of the older economists assumed constant returns to prove that entrepreneurs get no surplus.

increasing costs. Unless we can point out these inherent tendencies and connect them to our fundamental assumptions we should not feel satisfied that the whole theory of valuation or distribution has been finally verified or its truth firmly established.

Now, the one fundamental assumption on which all our reasoning has so far been based is that of free competition. That the entrepreneur cannot sell the produce in the long run at a rate higher than his unit cost, that otherwise there would be a shift from labour to entrepreneurship, that factors of production are paid according to their marginal productivity and that in the absence of such an equality between marginal productivity and the earning of a factor the employment of that factor would increase or decrease, are statements of facts which presuppose a competitive organisation of the entire industrial system. Remove competition and substitute a comprehensive cooperative organisation and the entire superstructure of the theory we have raised will tumble down.

Now, if competition is to rule in the domain of all productive activities one of the essential conditions is that no producer should eventually be absolutely superior in efficiency to the rest, irrespective of the amount produced. For, if one were, in this sense, absolutely superior to others he could permanently undersell all the rest and assume command of the entire market. Competition would then naturally disappear and the theory of distribution break down. Similarly it can be shown that it is essential that the productive efficiency of the various producers should not eventually be absolutely equal, that is, equal for equal amounts produced: otherwise competition, though possible, would be erratic and spasmodic and therefore ineffective.

The first of these two essentials implies that production costs (marginal and average) should eventually increase if they do not increase from the very beginning. The second implies that the cost curves should not, throughout their entire lengths or eventually, be identical.

The second of the two conditions is fulfilled by the fact that no two entrepreneurs can be exactly equal in their productive capacity. It, therefore, remains for us to show that in the nature of one or more factors of production there is inherent some quality or attribute by virtue of which every productive effort is subject to the law of increasing costs.

Of the five factors of production mentioned in the beginning of this article, organisation implies at least co-ordination of factors of production, if it does not involve anything besides it. Co-ordination or as some express it decision-taking, is an

absolutely limited factor of production.[5] You can employ many units of land, capital or supervisors, but co-ordination is by nature a single indivisible and unmultipliable unit. Inasmuch as it is not capable of being increased it renders the whole productive plant subject to the law of increasing costs. For, once the co-ordinating unit is properly combined with the rest of the factors so that it is being utilised to its fullest capacity, there is no scope for a further increase of the plant with all the factors combined in the same proportion. Diminishing returns or increasing costs must therefore follow. It is for this reason that all productive plants have eventually to operate under the unrelenting law of increasing costs.

Again, inasmuch as the co-ordinating unit is indivisible it renders the whole productive plant subject to the law of decreasing costs in the initial stages of its expansion. For, while the other factors are employed in small quantities, co-ordination, being indivisible, has to be employed or engaged in its entirety. Hence, as the rest of the factors increase, co-ordination is naturally utilised to an increasing extent and the proportion between factors becomes more appropriate. Hence, decreasing costs are encountered.

We are now in a position to say that the one fundamental assumption underlying our reasoning, namely, that of free competition, is inseparably connected with the laws of decreasing and increasing costs in such a way that every productive effort in the field in which competition prevails obeys the law first of decreasing costs and then of increasing costs. And as this was shown to be the technical condition necessary for the equality of average and marginal costs of production, an equality the necessity for which was indicated already by the reasoning given above, we can now maintain that the theory of distribution has been adequately reasoned out and rigorously proved. The conclusions may now be briefly summed up as follows:

(1) That factors of production can be classified into land, labour, capital, organisation and enterprise. An entrepreneur's income consists of payments for his work determined on the same principle on which wages are determined, together with interest (including insurance against risk) on his capital and rent on his land, if he owns these factors.

5 This problem has been very ably discussed by N. Kaldor in his article *The Equilibrium of the Firm*, The Economic Journal, March 1934.

(2) That the entrepreneur does no work which is not the work of either a labourer, an organiser, a landlord, a capitalist or a risk-taker (risk-taking generally going together with the function of lending or investing capital). Hence, his income contains no element that can be regarded as a pure surplus.

(3) That, consequently, the selling price of a commodity equals the average cost of production.

(4) That the selling price also equals the marginal cost of production for that is the way in which a producer can maximise his income by adjusting factors over which he has a control.

(5) That, consequently, production is stabilised at a point where the average and marginal costs are equal, that is, where the average and marginal cost curves intersect (the lowest point on the average cost curve).

(6) That every factor of production is paid a price that equals its marginal productivity, and that when all the factors are thus remunerated the entire value produced is exhausted.

(7) And, lastly, that the theory of distribution, as adumbrated in this article, postulates free competition.

When we prove that the entrepreneur gets no surplus earning we do not, however, prove that the person who assumes the office of an entrepreneur gets no surplus at all. Our analysis simply shows that the owner of a productive plant, who is ordinarily called the producer, gets no surplus over and above the surplus that every person gets in his capacity as a labourer, a capitalist, etc., that is, by virtue of his being the supplier of some service. The entrepreneur must get his share of the surplus as a labourer, a capitalist, etc., but he cannot get any surplus over and above this—the surplus that is ordinarily called *producer's surplus* and denoted graphically by the area enclosed by the *Y*-axis, the horizontal price line and the rising cost curve. When the cost curve is so drawn as to include all elements of cost, and unless it is so drawn it cannot serve the purpose for which it is meant, there is such area left.

However, as we have just said, there is a surplus which every supplier of a (productive) service earns. A labourer secures a surplus when he sells his labour, and it is measured by the difference between the utility of his wages and the disutility of his exertion. The disutility of exertion is again measured by the utility of rest—the alternative to exertion. This kind of surplus the seller of every service gets. The person who goes by the name of an entrepreneur also secures this surplus but only because he is really partly a labourer, partly an organiser, partly a capitalist. This surplus is nothing but what is known in the theory of exchange as the gain resulting from barter.

THE PUNJAB EXPERIMENT IN COOPERATIVE LAND MORTGAGE BANKS

BY

SH. ATAULLAH,

Muslim University, Aligarh.

The Punjab had the honour to lead the rest of India in the establishment of cooperative land mortgage banks. The Jhang Cooperative Land Mortgage Bank was started in 1920. There are now twelve Cooperative Land Mortgage Banks in the Province.

Membership.—Membership of Cooperative Land Mortgage Banks is open to agricultural credit societies and individual owners of agricultural land.

Area of Operations.—With the exception of banks at Jhang and Mianwali which operate over the whole district, the area of operation of the rest of the banks is limited to a single tehsil in a district.

Objects of Loans.—Loans are generally made for:— (1) Redemption of land. (2) Liquidation of unsecured debts. (3) For the improvement of land. (4) Loans for purchase of land allowed in the beginning have been positively prohibited.

Limits of the Loans.—The maximum limit of loan for any member is fixed at thirty times the land revenue payable on the land mortgaged. The maximum limit in the case of one bank is Rs. 15,000 while in the case of four banks it is Rs. 10,000. However, the Department now definitely desires to reduce this limit to Rs. 5,000 only.

Duration of the Loan.—Loans were at first granted for five years, the period has now been extended to ten.

Limit of the loan and the enquiry.

The limit of loan at first stood at 30 times the land revenue which recently had been brought down to five times only and since 1933 practically all lending has been virtually stopped.

The model by-laws provide, in order to secure a margin of safety, that no loan may exceed 15 times the annual net profit of the mortgaged property. When an application for loan is

received a Director and a paid servant of the bank undertake an enquiry into the value of annual profit from the property. A local enquiry into the conditions and productivity of land is undertaken. This committee of enquiry submits an open report to the Directors. One of the members of the committee, usually, the Director, submits a confidential report. The maximum assessment of land revenue permitted by Government rules is one-half of the net profit, the by-laws allow this assumption to be made that in the absence of extraordinary and unexpected deterioration of the property, thirty times the land revenue will never be more than fifteen times the net annual profit. When, therefore, the loan applied for does not exceed thirty times the land revenue, a summary enquiry only is made on the spot. If the loan applied for exceeds thirty times the land revenue it is possible that this amount may exceed 15 times the annual net profit. In such a case a detailed enquiry has to be undertaken. The enquiry is based on revenue records showing the actual crops grown on the land in the last five years, the average outturn of each such crop in the vicinity of the land on the mortgage of which the loan has to be granted. The prevailing market price of the produce is taken into consideration. This enquiry is conducted by two investigators, as in the first case, and forms the basis of the Director's decision.

Difficulties and Defects in the Working of Mortgage Banks.

(1) *Mania for purchase of land.*—Long-term loans for the purchase of land in the beginning were allowed by Land Mortgage Banks in the Punjab. But this tendency to borrow for purchase of land soon developed into a fantastic mania. The rising value of land made the Zamindar's hunger for land all the more intense and this intensity grew more than in proportion to the rise in the value of land. This tendency towards purchase of land made the price of land shoot up; by 1926 it had been realised by the Department that land already stood at an un-economic price and it was decided to refuse loans for purchase of land. The borrowers, when their applications for loans for purchase of land were rejected, resorted to mortgaging their existing property in order to buy land and then applied for loans for redemption of land. It was found to be extremely difficult to detect such cases. In 1926 one Bank was thus deceived or should I say the deception was discovered in this one case alone. In 1927 it was decided that no loans should be advanced by any Bank, for purchase of

land, which desired to obtain loans from the Government. In spite of this definite prohibition one bank advanced a loan for purchase of land which under express instructions from the Registrar had to be recalled.

Directorate. Lack of ability.

One of the causes of slow and unsatisfactory growth of Joint Stock Banking in India is the dearth of Directors possessing the requisite ability and enthusiasm. Joint Stock Banks draw their Directors from the educated classes. The directorate of mortgage banks is to be drawn essentially from the Zamindar classes amongst whom it is difficult to find men who are fit to be made Directors of a Bank. The educated Punjabi if he is not a Zamindar himself has very little interest in measures designed to help the cultivator. The bulk of the Directors lack that education and ability which is almost the first essential of the success of a bank. There are some educated Punjabis who are rendering good help to these banks as Directors.

(2) *Lack of Loyalty.*—As in the case of the Managing Committee of a Primary Society the Directorate of a Mortgage Bank does in various ways misuse its powers to the utter detriment of the institution. Partiality and favouritism have their full play.

Loans are readily granted to friends and relatives. Preliminary enquiries by Directors on loan applications are generally unreliable. Directors show less of loyalty to the bank and more of dishonest indulgence to the borrowers who are their friends and relatives.

Directorship is a position of honour and may be of great financial satisfaction and is hence much sought after. One Director of a Mortgage Bank once brought the shareholders to the general meeting of the bank, at his own expense to get elected as a Director. The Directors fight like pleaders to get the loans sanctioned which they have recommended. In the beginning when Directors could borrow from the bank at their sweet will, large sums were borrowed and misused by them. The Registrar proposed in 1928 that loans to Directors should be stopped. Four banks have consequently stopped loans to them. Only one mortgage bank allows loans to Directors without any restriction. The remaining half of the banks grant loans to Directors only when two-thirds of the Directors, excluding the applicant, unanimously agree to the loan. But such a sanction by the Directors must, as well, have the written approval of the official member.

(3) *Frauds upon the Banks.*—Members and Directors, it appears, all in a way conspire to perpetrate frauds upon the

Banks. The borrowers do not always deal fairly with the bank both in borrowing and in making the repayments. The object of the loan is not always what it is given out to be. Loan for purchase of land can be secured under another pretence. Land is purposely and fictitiously mortgaged to friends and relatives and money is borrowed from the bank on the strength of such a mortgage.

The Directors' enquiry into the value of assests and previous debts of a borrower is very nearly unreliable. Favourites and followers are shown every indulgence with a view to ensuring their fidelity. The report for 1928 tells us that in Lyallpur a member took a loan of Rs. 1,400 and within three months applied for insolvency. In his loan application he had stated that his outside liabilities were Rs. 3,000 but in the insolvency petition he put down his liabilites at Rs. 11,500. The same report records: "In the same district, a Director after enquiry recommended a loan of Rs. 4,400 to an applicant for the repayment of old debt. The loan was issued shortly afterwards, his other creditors filed an application for insolvency against him, and the loan given to him by the bank is reported not to have been passed on by him to his creditors before the application for insolvency was filed. In other cases borrowers have failed to produce the receipts of their creditors within a reasonable time, which raises suspicion that the money has not been properly applied, in others the receipts produced are not of the same creditors whose names were given in the loan application." So much has been confessed by the Department, but the Department does not always deem it necessary to divulge all that comes to its knowledge. Fictitious receipts have been presented to banks in a number of cases. In fact, as the report for 1928 tells us, "It seems that repayment of old debts is a convenient plea for incurring a new one." I feel the mortgage banks have been grossly mis-used by the borrowers. They have borrowed from the bank for all sorts of purposes and on all sorts of pretences.

Such frauds seem to be a serious handicap in the development of mortgage banks. Sardar Beant Singh, Deputy Registrar, Jullundur, stressed the necessity of penal provisions in the Co-operative Law to punish persons giving false information about their assets and liabilities and other matters pertaining to land. This, he said, in his evidence before the Punjab Provincial Banking Enquiry Committee, was necessary even when such frauds be not perpetrated by a large number of members, because one member borrowing a large sum of money on the basis of incorrect

information may bring the bank into trouble. In one bank a man borrowed Rs. 2,000 on the security of land which was not his. This was discovered after three years.

Practical difficulties have been experienced in three different forms.

(4) *Unacceptability of Cheques.*—A mortgagee to whom the borrower is to make payment for redemption, may not always accept a cheque. The borrower is liable to mis-use the loan from the bank if the cheque is made payable to him. The encashment of the cheque and payment of debt direct to the mortgagee necessitates the intervention of a Director. While safe-guarding one evil it creates another in the temptation that many Directors may not be able to stand.

(5) *Delay in Mutation.*—Mutation of names in revenue records after redemption is as a rule a very tough job. The lower revenue officials for reasons of their own, look with disfavour upon a redemption proceeding which completes itself with a stunning suddenness and without involving the parties in a prolonged litigation. Special efforts in the form of representations to higher revenue officials are rendered necessary.

(6) *Revenue Records.*—The enquiry into the assets and possessions of an applicant for loan necessitates an examination of revenue records with a view to verifying his statements. The Department complains that copies of revenue records are not to be obtained, " with that reasonable promptitude and at the price intended by the revenue rules." The lower revenue staff seems to have thoroughly annoyed the Department of Cooperation. It was suggested by some officials of the Department that Banks should be entitled to get copies of revenue records through correspondence with the revenue authorities, but the Department of Cooperation never made this suggestion to the Government because of " the danger that a person who wished for a copy but did not really intend to borrow from the bank, might use the bank as a convenience, and needlessly complicate the business." Sardar Beant Singh, Deputy Registrar, in his evidence before the Banking Enquiry Committee, asked for a concession in the form of free access to revenue records. But I think the difficulty referred to above, by the Registrar, could easily be avoided by making the applicant pay double the price for a copy of his revenue records in case he eventually decided not to borrow from the bank.

Period of the Loan.—A Mortgage loan is granted for ten years. There is a consensus of opinion within and without the Department that ten years is too short a period to let mortgage

loans become a success. The instalments are too heavy to be paid out of savings and in a number of cases honest borrowers have had to sell their lands to make repayments. The demand for enhancement in the period of loan is universal and in 1928 Mianwali did actually extend the duration of loans. The Registrar in 1928 did not deem an extension in the duration of payment advisable. He said, "There is danger in this at present, for with an uneducated and unbusinesslike peasantry the benefit obtained by a loan is quickly forgotten and only the burden remembered with consequent difficulties as to repayment. Period should be extended when punctuality and character and a feeling of benefit is there." Other things remaining the same, the chances of success would undoubtedly be greater than at present if a reasonable extension in the duration of loans is granted.

The rate of interest.—Mortgage Banks lend money at 8 or 9 per cent. Money is borrowed by agriculturists who have to repay it out of the proceeds of their business. This has been recognised to be a high rate of interest which renders borrowing unprofitable. During the last six or seven years the fall in the prices of agricultural produce has been very heavy and consequently it has not been possible for the borrowers to repay without either resorting to money-lenders or selling their lands. It has been found out that in a number of cases in which land has been taken possession of, it will, at the present level of prices, take twenty years to realize only interest due from borrowers. In the canal colonies a plot of land which could be given on lease for Rs. 850 annually, now fetches only Rs. 150.

Defaults.—Every person from whom any sum of principal or interest remains outstanding on the date of demand is reckoned as a defaulter. Postponement in payment is allowed when remission in revenue is granted. Four years of working of the banks introduced defaulters to the movement. Bad harvests have been recognised as the general cause of default. Borrowers default when they cannot pay. Arbitration proceedings were in 1925 started against the defaulters. But people are known to have defaulted when the managing committee for one reason or another showed indulgence to them. In a Mortgage Bank the sympathies of the Directors are with the borrowers and not with the bank. Their position was well depicted by one of the Registrars when he said, "It is not merely that they find it difficult to resist the claims and entreaties of their relatives and neighbours, but in showing indulgence today they hope to be treated with indulgence tomorrow."

In the recent economic crisis through which we are passing defaults are chiefly due to inability to pay. Many have been compelled to sell their lands in order to pay off their debts.

The recent crisis and the working of Mortgage Banks.

The Registrar, held a conference of all the colony Mortgage Banks at Lyallpur, in April, 1930, to consider the effect of the present economic situation on the colonists and on the working of the Mortgage Banks. The relevant decisions reached were thus summarised in the anual report for 1931:—

(*a*) As present conditions had reduced the Zamindars' surplus to a very small figure, the instalments due from borrowers should be reduced by 50 per cent and repayments of the balance should be spread over the remaining period of the loan, and the position should be reviewed after three years. Future loans might, if suitable arrangements could be made, be given in approved cases for 15 years, instead of ten as at present.

(*b*) In future all loans should be limited to five times the land revenue or Rs. 4,000, whichever was less, instead of the original limits of Rs. 5,000 or 30 times the land revenue.

(*c*) Further, as the object of a Bank was to help the borrowers and nobody else, loans for the redemption of land and for the payments of old debts should cease to be given; for the fall in prices had reduced the effective rate on usufructuary mortgages to not more than 5 per cent (while the bank's rate was 9 per cent), and had made it harder for creditors of all kinds to recover their dues; and there was no reason why a bank should harm its members by giving them loans at higher rate of interest than they were actually paying, on the one hand, or on the other helping the money-lenders at its own considerable expense. The banks that do not operate in the colony areas have more or less conformed to the same course of action, as their local circumstances demand, especially on the matter of reduction of the maximum loan. No loans are being granted at all and all efforts are directed at making recoveries. Borrowers either sell their lands or go to money-lenders for repayments of the bank loans. There was in fact aroused a feeling of resentment against the harshness of measures adopted by the department to effect recoveries. The cause of ill-luck that has befallen these banks and the general effect of the depression that has now assumed the width and intensity of a crisis have been depicted by the Registrar in his annual report for 1933, thus:

" The troubles of these banks are in very large measures due to their having been started at an unlucky time. They launched forth into business when high prices and agricultural prosperity were almost at their peak, and loans were given in accordance with the standards prevailing at that time. The depression soon followed and borrowers have been genuinely unable to meet their obligations in the way of instalments on loans which now assumed three or four times their original value. Moreover the property held by the banks as security was, and is no longer sufficient to cover the loans; it has been found that in cases where it has been necessary to foreclose and take over the debtor's lands, the total sum to be derived from them is, at present rate of rent, not even enough to cover the charge for interest, the principal remaining unpaid. This is true particularly in colony areas; unless, therefore, the rise in values comes soon, the banks may have to face considerable losses. In several banks the Directors, now that the issuing of loans has been stopped, take little further interest in their affairs, and the individuous task of recoveries is left to the managers and the departmental staff. Of one bank it is caustically remarked that the Directors came not to serve but to suck, and certainly the condition of the bank justifies the comment. The Punjab in this respect must look wistfully across India to Madras, which has recently launched its mortgage bank programme, and the banks beginning business in the present condition of low interest rates and reduced values, have made an auspicious start."

We have in these lines a very realistic description of the working of the banks. It is nothing short of a tragedy that an attempt like this should have come to so serious a trouble. But we must remember that these are abnormal times and no amount of foresight with which any one of us may be gifted could save the situation. In the case of canal colonies it must be admitted that these banks should not have been started. Zamindars in the colonies could not mortgage their lands hence there was no question of redemption of land. Land in the colonies being fertile and enjoying irrigation by canal, no large loans for improvement of land were necessary. Since money could be had it was borrowed and mis-spent. The bank in a place like Jhang where the return to man's effort is so niggardly that the possibility of repayments at such a high rate of interest is indeed very remote had no prospect of an early success. Whatever the causes we are facing very unpleasant consequences. Should we then despair and give up the attempt as hopeless?

Surely not. Having had good experience and being convinced of the necessity of them, the Department should redouble its efforts at making a success of the mortgage banks, which like so many other forms of Cooperation the Punjab had the honour to introduce in India. The area of land redeemed will convince each one of us of the usefulness of the effort. One case of redemption of land through mortgage banks needs special mention. In Shahpur, a Zamindar, with the help of the mortgage bank, redeemed his land which had been mortgaged for 36 years and repaid the whole amount within a year.

A borrower mortgages his land to the bank when he gets a loan. But the mortgage is without possession. The same land can legally be mortgaged to another creditor who can have possession of the land mortgaged to him. The other creditor who has acquired possession of the land creates quite a difficult position. This difficulty should be avoided either by taking possession of the land at the very outset or by declaring a second mortgage of the land illegal. When the borrower in spite of all efforts and reasonable extensions persists in defaulting the land on the security of which the loan had been advanced is taken possession of by the bank. In a large number of cases such possession has had to be resorted to in Lyallpur. The arbitrator decides that the bank is to be given possession of the land, say for twenty years. This award is taken to a Civil Court. The Civil Court accepting the award intimates the decree to the Revenue Courts asking that possession may be given to the bank. The Revenue Courts generally question the arbitrators' authority to give such an award. The arbitrator should have a very clear idea of the duration of the possession and in his awards he must specify the period for which possession is to be given.

The arbitrator may merely declare that possession of land must be given to the bank. Such an award is to be taken to a Collector who uses his discretion in getting this award executed and decides the details in his own way. He determines the area of land that must remain in the possession of the debtor for his use and fixes the period for which possession is to be given to the bank.

Mortgage Banks and Land Alienation Acts.

The Central Banking Enquiry Committee has the following recommendation to make:—

" In view of these difficulties we recommend that an alteration should be made in the Land Alienation Acts, all legislation

which restricts the sale or mortgage or other forms of alienation in the several provinces is included in this expression,—which would give to the Cooperative Land Mortgage Banks the right to take possession of land through foreclosure on default of the payment of the instalment of the loan and to sell it. The sale may be restricted to the agricultural classes according to the provisions of prevailing legislation and no question of policy in regard to preventing expropriation of these classes is intended to be touched by this particular recommendation."

Under special circumstances extensions in the payment of an instalment that falls due have been and ought to be granted. The period and number of extensions is to be determined by the intensity of the operation of factors outside the farmer's control that have made him a defaulter. As the Registrar tells us in his latest Report, " the borrowers have been *genuinely unable* to meet their obligations in the way of instalments." Even under normal conditions non-payment may be perfectly justifiable and indulgence must be shown to the borrower. It is only after the borrowers' intention to default in spite of ability to repay has been established that the right to possession of the borrowers' land should be exercised. When the necessity for the exercise of such a right has been established, the process of temporary transfer of land should be summary and independent of any reference to Courts. The final portion of this suggestion is simply shocking. The mortgage bank is to be empowered not only to take possession of the borrowers' land but is also to be empowered to sell it. Well! what is the difference between the heartless exploiter of the peasantry, the Punjab usurer and a Cooperative Bank, the moral and cooperative basis of which is rightly expected to revolutionize the very life of the peasantry in the Punjab.

Such a power is vindictive. When less sweeping measures can ensure the repayment of loan it is manifestly unjust to deprive the peasant of his means of livelihood and to make paupers of his heirs. Possession of land for a period during which the loan can be recovered is enough and adequate. For a temporary benefit granted to the borrower it is unjustifiable in a Cooperative bank to deprive the borrower and his future generations of their permanent source of livelihood. If that is to be the end of it the farmer must be left in the clutches of the moneylender where he is certainly safer.

SAFETY AND HEALTH LEGISLATION

BY

R. D. TIWARI, M.A.

Safety and health legislation has received adequate recognition at the hands of the modern state. It has been recognised by the modern state as one of its imperative duties, and as an efficient device for protecting the life and limbs of the workers. It is, as it were, a part of its larger duty of protecting every citizen from any danger to life and property either from within or outside. But when we take into consideration the predominantly industrial character of the modern states we find that the prevention of accidents and occupational diseases is not merely a social duty, it is an economic necessity. Social Insurance, as has been noted elsewhere, does not prevent but alleviates the evils against which it gives protection. The primary function of social insurance is compensation. The prevention of these evils is primarily the task of safety and health legislation.

The state discharges its "preventive" duties by twofold methods. Firstly, by enacting legislation requiring minimum standard, in fencing machinery, and in keeping certain sanitary rules. This has been termed the mandatory power of the state. Secondly, the state, by education in safety methods, and by persuasive propaganda, as in establishing museums for their adoption, fulfils its duty. Here the state works in its advisory capacity. What its mandatory power seeks to enforce, its advisory function educates to practise.

Increased attention has been directed during recent years to working conditions conducive to the health of the worker and progress has been made in the improvement of conditions under which he works and in the application of measures for accident prevention. Reference has already been made to the statutory requirements, but many factories have gone far beyond the minimum standards prescribed by legislation. There is, however, room for the extension of the practices introduced by the most progressive firms. The useful measures are improvements in ventilation, heating, humidity standards, lighting, elimination of dust, reduction of fatigue by avoiding long hours of work, introduction of rest pauses especially in repetitive work, provision of seats, arrangement of work and design of machinery

to avoid awkward postures and to eliminate unnecessary movements, and special measures in certain occupations (*e.g.*, the use of suitable spectacles to reduce eye-strain among workers engaged upon fine work). These measures need be made more popular at the hands of more conservative employers.

The losses which industry suffers from sickness among the workers are insufficiently recognised. Inability to afford the loss of wages involved by sick leave and the fear of losing employment if his absence from work is prolonged, often induce the sick workers to continue to work, thereby endangering not only his own health but sometimes also that of his fellow workers. It also happens that employers, more particularly if there are urgent orders to be executed, bring pressure to bear on sick workers to remain at work. Obviously, so long as these conditions persist, the reduction of sickness rate is rendered more difficult to achieve. In this sphere Japanese legislation holds an important place inasmuch as it has begun to make absence of work compulsory in certain cases of sickness; and Indian factory legislation can be suitably amended in the light of these measures.

Looking to the Japanese legislation, we find that any person suffering from an infectious disease is debarred from employment in a factory or mine. In Japanese law a sick person is not only one who actually has the symptoms of any given disease, but also any one who has not recovered health even after the symptoms have disappeared. According to the present factory and mining laws, an employer is prohibited from employing a worker suffering from certain diseases specially enumerated therein. In order to ensure that sick people shall be eliminated from the work places, the Factory Act has authorised the Inspector of Factories to " inspect a factory or its annexes, or medically examine any worker or apprentice suspected of a disease which entails prohibition of employment or is infectious." Moreover, both the factory and the mining laws require that the employer should call a doctor to make a diagnosis or post-mortem examination without delay whenever any worker is injured or taken ill, or if he dies when at work, either in a workshop or in any building attached thereto. Strict observance of this requirement is ensured by further legal provisions obliging the employer to report the cases, and to get the disease diagnosed and medically examined, failure being punishable with fines. In respect of factories where at least 50 operatives are normally employed, there is an additional obligation imposed: the employer must make a monthly report on the sickness, injury

and death of workers, on the form prescribed for the purpose. In mines the requirement is still more stringent than in factories. It will thus be seen that Japanese legislation offers very useful and instructive suggestions in this sphere.

Regulation for safety and health.

The employment of children below a certain age is prohibited. Even when the child has attained the age, when he may be legally employed, he is examined by the certifying surgeon as to his being of fit health for industrial employment. It would certainly be a decided improvement if the surgeon is required to examine the child with a view to determine his fitness for the particular kind of work. It can hardly be gainsaid that one kind of work may be more exhausting and fatiguing than the other. Further, the employment of women and children is prohibited in places where they are more liable to personal injury and industrial diseases. Looking to the Indian factory legislation we find that it lags behind the other countries in this respect, because there is scarcely any classification of employments which are dangerous to the health of women and children.

Japanese factory legislation affords a very useful comparative study in this sphere. The Factory Act of 1911 for the first time provided a standard national legislation. It laid down that if the administrative authorities consider "that a factory or the premises or equipment thereof, is likely to prove dangerous or detrimental to health, morality or other public interests, they may instruct the occupiers of such factory, in accordance with the regulations to be issued by order, to take such measures as may be necessary to prevent or reduce the dangers in question[1] . . ." But even in Japan legislation is far from being ideal and lacks in very many respects. Children are medically examined but not with a view to particular kind of work, so that it can be fairly said that the Japanese factory legislation does not mark any appreciable advance in this respect over the Indian factory legislation.

Health of the industrial worker is an important asset and determines the industrial efficiency of the country on which rests modern civilisation. Therefore, the Government of India has also recognised the importance of maintaining and improving the efficiency of its industrial population and hence health

1 Vide *Industrial Labour in Japan.*

legislation is accepted to be an important part of factory legislation. The Labour Commission has also emphasised the importance of this aspect of our legislation. The investigations conducted by the Commission have revealed very many important and striking features of the conditions under which the industrial worker has to work in India. In a number of factories the manufacturing processes disseminate large amounts of dust, arrangements for the elimination of which are frequently defective. Mechanical systems which result in a constant flow of fresh air would undoubtedly add to the comfort of the operative, and would in some cases improve his output. More important is the conservation of the worker's health, for the prevalence of dust may result in pulmonary disease. Reasonable minimum standard should therefore be laid down and it should be made obligatory. Where dust and fluff are produced, the floors and walls should be regularly cleaned. Periodic whitewash of the interior walls and roofs should be the rule. "It is difficult to associate efficiency with the grim to be found in some factories."[2] Therefore, the rules as to cleaning of factories should be supplemented and strictly enforced.

The atmosphere of the factory is also important in maintaining the health of the industrial worker and in increasing his efficiency. India possesses a peculiar climate. In nearly every part of India there are long periods when climatic conditions render physical toil particularly difficult and unpleasant. This is especially true of the factory work. Factory owners have failed to make adequate provisions to protect the operatives from the enervating conditions under which they work in certain part of the year. This conservatism on the part of the factory owners has cost much not merely to the work people but to the industry as well. More shrewd and alert employers have found that an improvement in the factory conditions has increased the efficiency of their labour force. There is sufficient room for improvement in this direction and the employers stand to gain much by improvements of this character in the form of increased production and better industrial relations without undue expense. Raising of the humidity would add to the comfort of the operatives and increase their efficiency. The Commission rightly points out, "Some of the cotton mills which are visited are, in the hot weather, much pleasanter than the outside atmosphere and we understand that those employers who have spent large

[2] Vide *Report*, p. 56.

[3] Vide *Report*, p. 59.

sums in installing the best cooling and humidifying plants have had gratifying results in production."[3] In view of the aforesaid facts suitable statutory provision should be made for installing these cooling and humidifying plants in all the factories so as to improve the efficiency of the industrial worker by protecting him from such serious discomfort which impairs alike his health and efficiency. The Factory Act needs to be amended on these lines.

Measures calculated to prevent the occurrence of accidents and to minimise the intensity of those which occur are receiving increasing attention at the hands of modern states and India is no exception to this general trend. Here too legislative provisions are being made for the protection of the workers from accidents. Power equipment is strictly supervised. Boilers Supervision Act is important in this connection. This Act ensures that the boilers are kept in the proper condition so as to prevent the occurrence of accidents. But here, too, it may be noted that in order to prevent accidents devices which would control the entire power equipment and enable quick stopping of the plant should be introduced. Moreover special guards must be kept as protection against electricity and boiler bursting. Safeguarding the dangerous parts of the machines is also important. India has made fairly good progress. The fencing of machinery is particularly satisfactory in Bombay. No wonder therefore that in Bombay 70 per cent of the accidents are due to causes not connected with the machinery. But the lesser number of accidents in Bombay are due to the slow speed of the machinery as compared with that of the Western countries. Moreover, the machinery coming from England is equipped with safety appliances. Hence from the very commencement of the factory construction in India safety measures and appliances were not wanting. Yet there is a wide gap to be filled up in the equipment of safety appliances. Workmen are not provided with goggles where there is danger to the eye from the flying substances. So also they are not given special clothing suitable for their special jobs. In England and America much progress has been made in this direction. It can hardly be gainsaid that the persons working near the belts should be given tight and fitting clothes to wear, so that the loose garments might not get entangled in the fast moving belts or in any machinery.

Yet the available statistics show that the accidents in factories in this country are on an increase. Undoubtedly a part of this increase is due to the improvement in reporting of accidents, but it would be idle to deny that the factory worker

in India is running greater risks with the improvement in the technique of production and the "speeding up" of the different processes. The danger of the mechanical appliances is further increased due to the lack of adequate safety devices. No doubt much has been done in this direction, but much still remains to be done. The Inspectors of factories have done much in this direction. There is no department of work, says the Labour Commission, to which Inspectors of factories have given more attention throughout India in recent years, and if it had not been for their patient and thorough work, the increase in the number of accidents would have been much greater.[4]

Japanese factory legislation is interesting in this connection. According to the Factory Act, dangerous parts of a motor or power transmission apparatus must be fenced or covered. If there is danger in oiling the power transmission apparatus used, a safe oiling arrangement must be substituted. When several machines are driven by the same motor, each machine must be equipped with a device whereby its individual motion can be stopped immediately in case of danger. A proper signal must be given to all persons concerned when a motor or power transmission apparatus is set in motion. Persons who are in danger of having their hair or clothing caught by machinery in motion must wear appropriate caps or working clothes. All dangerous places must be guarded with a fence, railing or cover. Signs must be placed in all dangerous places. Ladders must have safety rungs. In places where gas, power or dust is generated and there is danger of explosion or injury to health, some arrangement such as exhaustion or confinement must be made. Signs must be placed prohibiting the entrance of unauthorised persons into places where substances dangerous or injurious to health are manufactured, stored or handled. Suitable protective equipment must be worn by persons in danger of being hit by flying objects, persons engaged in the manufacture or handling of substances at high temperature, poisons or powerful drugs, persons exposed to injurious rays and persons who work in places where injurious substances are produced.[5]

Another important activity of the state which needs be noted in this connection is the safety propaganda. The first remedy to ensure safety is to educate the worker in industrial training. It is the dullard, the unimaginative, and uneducated worker who is a danger to himself and a source of menace to others. But

4 Vide *Report*, p. 61.

5 Vide *The Industrial Labour in Japan*, pp. 255-256.

if he is properly trained he becomes aware of the risk to himself as well as to his fellow workmen. This is not all. He must be educated directly in the use of safety devices. For this purpose the use of illustrated lectures, leaflets and sign-boards is highly desirable. This device has already proved its utility in other countries. So also great care should be exercised in entrusting a given job to the right man. "Safety first" movement is a right move in this direction. In European countries this movement has become very popular. In addition safety museums are established which have proved highly useful to the worker. A safety museum occupies in its field the same position that public schools do in their field. It has proved itself a necessary part of modern industrialism, and it has come to stay. These museums are not mere showrooms, but they pulsate with life. They have research departments of their own and have become active laboratories of every industrialist in the country. In India the absence of such institutions is keenly felt.

The Labour Commission appreciated fully the importance of safety first movement and keenly felt the lack of a well-organised movement in this country. Therefore we quote their remarks *in extenso.* "Their efforts to secure adequate fencing and the enforcement of safety regulations have been coupled with an endeavour to educate the workers. In this, some employers have co-operated by the employment of safety posters, and, more rarely, the establishment of a safety committee; but there are other employers who themselves need education. We believe that, in spite of illiteracy, something can be done along the lines of the safety first movement, which has made great headway in the last decade in most industrialised countries. Safety committees should be of considerable assistance in large factories employing a number of skilled operatives. Much could probably be done by charging a particular officer with the duty of investigating and preventing accidents, and this is one of the many directions in which a special labour officer can give valuable service."[6] In this connection Japanese movement will be a very useful guide.

In Japan the safety first movement is well organised. There is a semi-official Industrial Welfare Association, a central body, which has co-ordinated the different societies. At first the association was financed wholly by contributions of the affiliated bodies, but from 1927 onwards it has been subsidised by the state treasury. The Association has a monthly publication, Industrial

6 Vide *Report*, p. 61.

Welfare, and innumerable pamphlets and leaflets dealing with industrial health and safety from various angles are sold at cost price or distributed free. Illustrations of safety apparatus and devices have been found to be of great value to factory owners and managers. Prize posters are a special feature of the Association's work; every month considerable sums of money are offered as prizes for posters judged to be the most striking and effective in calling the attention of the workers to the dangers of the accident or of injury to health arising out of employment. The prizes have stirred the interest of the workers themselves, who compete with posters of their own design. The activities of the Association comprise conferences, wireless lectures, and prizes offered for short stories or dramas bearing on safety or hygiene, exhibits, films and lantern-slides, lecture courses and prizes to inventors of effective safety devices or to those who have prevented the occurrence of accidents by courageous acts.[7]

The Association has stimulated the organisation of safety weeks and safety days. These are organised much on the same lines as in other countries, but their frequency and the keenness of the people about them may perhaps be regarded as more or less peculiar to Japan. They are organised for a definite period, which may be a day, three days, a week or ten days; they may be limited to only one factory or mine, or they may cover all the factories in a prefecture. Very careful preparation by experts precedes these events; the officers in charge are previously given detailed instructions, and some practical training or drill is provided in many cases. Conferences are arranged in most important industrial centres, films and coloured posters are shown, men or vehicles carrying signs parade through the streets, plays are staged, wireless and other inventions are extensively used to stir popular interest. Safety badges and ribbons are worn by all the operatives.[8]

Safety weeks are usually followed by the appointment of a safety deputy or safety committees, or both, to supervise safety in the factory concerned. The safety deputy may be a trained engineer or a worker with some technical training; the safety committees are usually composed of technical staff and workers. Sometimes these committees are asked to perform wider functions than mere prevention of accidents. They often deal with

7 Vide *The Industrial Labour in Japan*, p. 262.

8 *Ibid*, p. 264.

the general question of workers' welfare as well as the relation with the employer.[9]

From the facts portrayed above it will be evident that India has much to learn from Japan so far as the organisation of safety movement is concerned. Japan has a well-organised safety first movement and this has helped considerably in reducing the number of accidents and in raising the standard of the industrial workers in Japan. Further, it has inculcated a sense of responsibility in the Japanese industrial population and an interest in the expansion of the home industry. It has improved the industrial relations and cemented the interests of the employers and the employed. But here it should be noted that the credit for the organisation of the movement rests primarily with the industrial population of Japan and not with the Japanese government. Education of the industrial worker should occupy a primary position in factory legislation, because an illiterate worker is slow to appreciate the importance of this sort of propaganda, and even if he does appreciate it he will not be able to make the best use of it.

Welfare Schemes.

Welfare schemes have made substantial contributions towards the protection of the industrial worker. In India, too, some employers have undertaken welfare work and this has substantially increased the efficiency of their labour force. From the success achieved in these factories it is clear that welfare work, if properly organised and carried out, can do much in removing the bane of inefficiency which has become an invariable concomitant *sine qua non* of the Indian labour. Indian employers are slow to recognise the importance of these schemes, but in spite of their indifference the movement is making slow but steady progress. The Labour Commission commenting upon the situation remarks: "There are factories which would compare favourably in layout, cleanliness, atmosphere and general well-being with any factory in the world; there are others in which the welfare of the workers is almost entirely neglected. Even within the same industry in a single centre, there are marked contrasts; and the example shown by some of the employers seems to have little effect on others. Fortunately for the majority of the operatives, the larger factories are, on the whole, better than the smaller ones, and there has

9 Vide *The Industrial Labour in Japan*, p. 268.

been a marked general advance in recent years. This has been due, partly to a growing realisation by owners and managers of the importance of promoting the health and comfort of their operatives, and partly to an increasing unwillingness on the part of the operatives to tolerate unpleasant condition. Both these influences are bound to gain in strength, and it is want of knowledge rather than unwillingness which prevents some factory owners from introducing further improvements. What is now required is some method by which the more backward employers may be brought at least up to the general level which has already been surpassed by the more enlightened and progressive employers.[10] Therefore the Commission recommends "a uniform minimum standard of welfare."

In the case of all factories where mechanical power is used, a first-aid box of prescribed standard, which need not involve any great outlay, should be provided and maintained in proper condition in an accessible place and, in the larger factories employing 250 or more persons, additional boxes be maintained in the different departments according to the number of workers employed, on a basis to be laid down by the local government.[11]

Crèches are not uncommon in factories employing women, and some of them are admirably staffed and equipped; others, if better than nothing, still have left much to be desired; yet others are both dirty and inadequately furnished. In many of the factories employing women in substantial numbers, no crèches have been provided, and this is particularly true of Bengal Jute mills; where caste feeling and reluctance of women to leave their young children are said to create serious difficulties. As a result of the absence of crèches, infants are taken into the mills and can be found lying on sacking, in bobbin boxes and other suitable places, exposed to the noise and danger of moving machinery and a dust-laden atmosphere, and no year passes without a certain number of serious and minor accidents, and sometimes even of deaths, occurring among such children. It is important that crèches, when first opened, should be well-furnished and properly supervised. If suitable women are placed in charge and short periods of absence from work at necessary intervals are granted to the nursing mothers, we believe that gradually the initial prejudices and diffidence of women could be overcome. Nor must it be thought that the

10 Vide *Report*, p. 63.

11 Vide *Report*, p. 64.

introduction involves heavy expenditure.[12] The use of crèches should be made universal where women are employed.

The provision of lunch sheds should be adopted more generally and the possibility of canteens should be examined.

Maternity Benefits.

In some of the large industrial concerns employers have voluntarily introduced maternity benefit schemes for their women workers, but, except in Bombay and the C. P., where Acts of limited application have been passed, there is no legislation on the subject. " We believe the time is ripe for the introduction of legislation throughout India making a maternity benefit scheme compulsory in case of women permanently employed in industrial establishments on full time processes."[13]

The Central Provinces Maternity Benefit Act provides for benefits at the rate of the woman's average daily earnings, calculated on the total wages earned during a period of three months preceding the day of her confinement, or at the rate of eight annas per day, whichever is less. This seems suitable for general application. Therefore according to the recommendations of the Labour Commission the maximum period for which any woman shall be entitled to the payment of maternity benefit be four weeks up to and including the day of her delivery and four weeks following that day.[14]

The need of Provision for Sickness.

The question of making provision for workers during sickness, even if it had not been previously raised by the Government, would have been forced on us by what we found in every industrial centre, says the Labour Commission. By common consent the incidence of sickness is substantially higher than in Western countries; the medical facilities are much less adequate, and the wages generally paid make it impossible for most workers to get through more than a very short period of illness without borrowing. Indeed, sickness is an important contributory cause of indebtedness, with all that debt entails under existing conditions, for often, at the time of his greatest need, the worker may find himself destitute of resources, unable to take proper measures to restore his health and in difficulties regarding even the means of subsistence. The situation calls for the explora-

12 Vide *Report*, p. 65.
13 Vide *Report*, p. 263.
14 Vide *Report*, p. 264.

tion of all methods that may lead to the alleviation of the existing hardships.[15]

Industrial disease, as has been emphasised elsewhere, has become a serious menace to the modern civilisation. Therefore in more advanced industrial countries special provisions have been made for protecting the industrial workers against this danger to their efficiency. In India, however, as the Labour Commission has pointed out, the field of industrial disease remains unexplored. In Britain towards the end of the Great War, when many implications of the industrial disease were beginning to be realised, a Research Board was constituted to investigate the causes and effects of industrial fatigue in relation to long hours of work, the nature of the operations performed, the surroundings in which they were carried out and the physical conditions imposed thereby. As this work developed, it was inevitable that wider problems should be the subject of investigation, and recently this body has been re-named the Industrial Health Research Board. In a number of directions the investigations have enabled the formulation of definite conclusions of value to industry generally as well as to particular classes of manufacture. The best way of arranging for the necessary research in India would be to entrust it to the Indian Research Fund Association which is already in existence.[16] With a trained staff, Indian industry will be able to secure research into the effect on output of hours, temperature and other factors, the suitability of the present meal and rest intervals for the Indian worker, the relation between fatigue and accidents.

Medical Facilities.

The provision in this country of hospitals, dispensaries and medical treatment has been made mainly by the state, although a number of municipalities and industrial concerns have their own medical institutions, the former aided by lump sum grants from Government. In addition to these some small hospitals are maintained by religious and charitable bodies. The number of independent medical practitioners has increased only recently, but most of them are to be found in large cities. With the increasing industrialisation of the country, not merely in populous cities but in other industrial centres as well, the demand for medical facilities has increased far beyond the available facilities

15 Vide *Report*, p. 265.

16 Vide *Report*, p. 253.

and much remains to be done in this field in the interest alike of the employers and the employed. It is a relief to note that the employers have in certain areas provided medical facilities to their employees so much so that in some cases their organisations are admirably planned and render very valuable service to their labour force and the entire cost is borne by the industry. But this is true of only a few enlightened employers, and in large number of cases the workers are left to themselves. It is therefore necessary that the provision of a minimum standard of medical facilities should be made compulsory for all employers of labour.

In conclusion it may be said that in modern times more consideration is being given to the human factor in industry, for reasons not of paternalism but of productive efficiency. The growth of safety and health legislation and welfare work demonstrates this tendency. With the growth of industrialism in India the importance of protecting the industrial worker is being slowly realised both by the Government of India and a section of the employers. The workers are also demanding better conditions. But the progress is rather slow and much remains to be done, as will be seen from the facts portrayed above.

THE MADRAS LAND REVENUE SYSTEM—SOME ASPECTS

BY

S. SUBRAMANIAN AND N. S. SIVASUBRAMANIAN,

Annamalai University.

1. The aim of this paper is to point out certain salient features of the land revenue system in our presidency. The tenure of land is considered in two sections—the ryotwari and the non-ryotwari, the latter consisting of Zemindaris and major and minor inams. The figures used below have been taken from the Report on the Settlement of Land Revenue of the Districts of the Madras Presidency for fasli 1341 (1931-32) issued by the Madras Board of Revenue. It is believed that the analysis of the figures for one year will be at least a step forward in the direction of the solution of our land revenue problems.

2. At the outset the question arises:—What is the income to Government from land held under the ryotwari and the non-ryotwari tenure respectively? The first column of the following table shows the payments made to Government by the non-ryotwari holders and the second those made by the ryots for the year (1931-32).

NON-RYOTWARI			RYOTWARI		
	Description	Payment in Rs.		Description	Payment in Rs.
1.	Peshkash ..	49,91.947	1.	Assessment on holdings ..	5,89.17,213
2.	Shrotriem Jodi ..	7,52.630	2.	Enhanced water rates on lands irregularly irrigated ..	2,80.564*
3.	Minor Inams, Jodi and quit rent ..	23,40.137	3.	Charges levied for occupation (with or without application) of assessed and unassessed lands for which no *pattas* have been granted ..	6,42,018

Non-ryotwari		Ryotwari	
Description	Payment in Rs.	Description	Payment in Rs.
4. Second crop charge on minor inam wet lands in ryotwari villages	2,09,683	4. Charges levied for occupation of poramboke land	4,00,000†
5. Water rate on minor inams in ryotwari villages	13,35,549	5. Water rate and second crop charge ..	34,89,817
6. Charge for water in inam and zemin. villages including tirva-jasti and fasli-jasti ..	25,10,424	6. Revenue derived from tree tax..	3,76,751
7. Enhanced water rates on lands irregularly irrigated ..	1,40,282*		
8. Charges levied for occupation of poramboke land	12,985†		
Grand Total ..	1,22,93,637	Grand Total ..	6,41,06,363
Beriz deductions ..	9,86,342‡	Remissions ..	22,33,460
Net ..	1,13,07,295	Net ..	6,18,72,903

Other items of revenue shown in the Report are left out as they do not come within the scope of our discussion.

* Enhanced water rate on lands irregularly irrigated has been apportioned between the two columns in the ratio of 1 : 2 in accordance with the acreage under either tenure.

† Charges levied for the occupation of poramboke lands must, strictly speaking, go in entirety to column 2 but to be on the safer side the sum of Rs. 12,985 has been put down in the first column. The districts mentioned in the Report in this connection are mostly ryotwari. Further in Zemindaris and major inams the question for such charges does not arise.

‡ The remission is put fully on the ryotwari side. Thus the remission that benefits some non-ryotwari holders is not taken into account and the consequent disadvantage to the ryots from the point of view of comparison is ignored.

The above table shows that the ryots pay nearly 5½ times as much as the non-ryotwari holders do. Putting beside this the well-known fact that ryotwari tenure claims not more than two-thirds of the total cultivable soil of the presidency, one sees that our land revenue system requires improvement. When it is also realised that the ryotwari holder is the weaker one from the point of view of ability to pay, one is forced to the conclusion that something must be done at once to improve the state of things.

3. The percentage rates that the peshkash paid by each Zemindari bears to its total estimated revenue may now be considered.

Name of Zemindari	Estimated Revenue (Thousands of Rs.)	Peshkash (Thousands of Rs.)	Percentage (to the nearest tenth)
Parlakimedi	498	80	16·1
Vizianagaram	2,016	495	24·5
Bobbili	621	83	13·3
Jeypore	1,202	16	1·3
Pithapuram	598	263	44·0
Devarakota	281	79	28·1
Venkatagiri	1,168	369	31·6
Karvetnagar	571	174	30·5
Kalahasti	583	173	29·7
Sivaganga	677	253	37·1
Ramnad	1,170	293	25·0
Ettiyapuram	296	78	26·1
All other estates ..	12,631	2,636	20·9

The probability is that the estimated revenue shown here in each case is an under-estimate. Even when this fact is ignored and further an allowance of 25 per cent is made for cost of collection and maintenance of irrigation works it is seen that the percentage of estimated revenue that is paid to Government falls far short of the traditional 50 per cent of the net income. It must be noted that the allowance of 25 per cent that has been made for cost of collection, etc., is probably more than necessary.

4. It may be of interest to find out the payment made on the average per acre by the ryot and by the Zemindar.

	District & Zemindari		Extent (Acres)	Payment (Rs.)	Average per acre in Rs. and as.
1.	Ganjam	..	493,396	11,09,131	2/7
	Parlakimedi	..	227,200	79,787	0/5
2.	Vizagapatam	..	200,737	6,01,351	3/0
	Vizianagaram	..	384,000	4,94,816	1/5
	Bobbili	..	65,280	83,453	1/4
3.	East Godaveri	..	597,445	24,17,736	4/0
	Pithapuram	..	157,120	2,62,782	1/11
4.	Kistna	..	513,309	18,79,250	3/11
	Devarakota	..	89,600	79,495	0/14
5.	Nellore	..	938,829	21,71,631	2/5
	Venkatagiri	..	769,960	3,68,734	0/8
6.	Chittoor	..	565,748	8,19,828	1/7
	Karvetnagar	..	218,880	1,73,842	0/13
7.	Ramnad	..	315,032	5,79,582	1/13
	Sivaganga	..	232,960	2,53,451	1/1
	Ramnad	..	586,880	2,92,697	0/8

For the purpose of constructing the above table, the wet and dry lands have been combined in the case of the ryotwari area in each district and only the cultivable areas have been brought into the account of Zemindaris which are shown in italics. Moreover the vast and rich forest areas in the Zemindaris have been left out of consideration. Jeypore with its area of 6 millions of acres pays only about Rs. 15,000 as peshkash and owing to its very large deviation from the general trend it had to be excluded. Only incomplete statistics are available in the case of Ettiyapuram and so it has been omitted. One or two minor Zemindaris do not find a place in the table on account of the difficulty of assigning them wholly to a single district. In short a comparative study has been possible only for the seven districts shown in the table.

It is realised that the figures given above do not show anything definitely by themselves; nevertheless when they are placed by the side of the others which were dealt with in the previous sections they seem to confirm the inferences that have been drawn already.

REVIEW OF BOOKS

REGISTER, 1895—1932 of the London School of Economics and Political Science (University of London). (London, The London School of Economics and Political Science. 1934. Three Shillings and Six Pence net.)

This book is the Who's Who of past and present students of the London School of Economics and Political Science from 1895 to 1932. The Director, Sir William Beveridge, in a very interesting introduction points out that the primary object of the Register is not to furnish material regarding the history of the School or data for social investigation but to recall memories among former students and to refurnish or to reestablish their connexions with the School and with one another. Nevertheless, in the space of fourteen pages the Director has given us a most interesting account of the rise of the London School of Economics, a growth that will compare favourably with many of the most famous schools in the United States. It started from small beginnings in 1895 at the time when there was no teaching University of London, no internal degree and no Faculty of Economics. The lectures were in the evenings between 6 and 9 P.M. and it was not until 1906-7 that lectures were given regularly in the mornings. In the Session, 1932-33, the regular students amounted to 1340 of whom 796 were regular day students and the remainder 544 regular evening students. In addition to these regular students there were 481 inter-collegiate students and 1,118 occasional students. If ever a statistician wishes to see the large upward movement which has taken place in the study of economics since the War he will go to this volume as a locus classicus for the University of London. This growth is well seen in the first table published in the volume showing the degrees, diplomas and certificates awarded to students of the school from 1902-03 to 1931-32. The figures rise from 1 in 1902-03 to 48 in the pre-War year, to considerably more than three times that figure in 1922-23 (163), and to 213 in 1931-32.

The analysis of 1,195 students, of graduates between 1902-03 to 1931-32 shows that the three largest groups are social work, school teaching or paid research, and business. These occupations account for 60 per cent of the whole. University teaching and Government service account for 24 per cent. The remainedr is classified under the 'other professions and 'further study,' further study being the higher degree graduates of the next few years. An analysis of 1,844 students gives the interesting result that about 84 per cent are in the United Kingdom or the Irish Free State. 10 per cent in the British Empire and 6 per cent in foreign countries. At first blush one would have thought that the percentage in the British Empire ought to have been greater on account of the popularity of the School among over-sea students, especially Indian students. Sir William Beveridge rightly adds a caveat 'the true proportion of all past students that would be found in these last two groups, as distinct from those who have filled in forms, is almost certainly larger.'

The reviewer first made his acquaintance with the School after coming to India 26 years ago and during his leave has enjoyed greatly meeting

old friends there. Sir William Beveridge, the Director, it must be remembered, has had relations with India being born at Rangpur in Bengal, his father being Mr. Henry Beveridge of the Bengal Civil Service. His mother, as is well known, was a writer of Indian History and her works are today appreciated by many workers in the field of Indian Economic History. The late Mrs. Lilian Knowles, the late Professor Graham Wallas, the late Professor Edwin Cannan (whose somewhat prickly exterior concealed a very tender and humorous disposition, the late much-beloved Professor Allyn Young, Professor A. L. Bowley (who leaves this year the School on pension), Professor Gregory, Professor Laski, Mrs. Vera Anstey. Dr. Dalton, Professor H. A. Smith, son of the Indian Historian Vincent Smith of the Indian Civil Service, and several others have helped to make the School what it is today. One is sometimes at a loss to understand why it is sometimes regarded as an abode of socialism as we are all in a sense socialists today. Perhaps it dates back to the time of Dr. Max Beer and his defence of Maxism and perhaps to Professor Laski's reported views on current political affairs in some countries on the Continent of Europe. As Thucydides said long ago 'The strength of a city is not ships or walls, but men,' and this is very true of the staff of the School. Sir William Beveridge is indeed to be congratulated on producing the Register which, like the School of Economics itself, will grow in size and popularity in years to come.

—G. FINDLAY SHIRRAS

INTRODUCTION TO WORLD ECONOMICS by Dr. Kemper Simpson—published by George Allen and Unwin Ltd., pages 295. Price 10*s*. 6*d*. net.

This is essentially a practical approach to the modern world economic problems such as economic nationalism and international economic cooperation, uncontrolled and controlled inflation, interaction between currency, credit and reserves, the economic effects of Tariffs, cartels and other trade restrictions, the influence of cost of production on gold movements and on national and international price levels. In the midst of these varied economic facts the author clearly perceives the economic unity of the world and forecasts that a world community is slowly emerging and this has to be facilitated by international planning of industrial and banking organisation and economic recovery might result out of it.—

To illustrate his line of thought the author analyses the economic conditions of four leading industrial nations, *viz.*, the United States of America, Great Britain, France and Germany—countries which possess aggressive manufactures, vast internal wealth, large industrial populations, and vast foreign investments. Their people live cooped up in narrow areas. Their ability to live depends on wider markets existing in the four corners of the world. Extreme nationalism leads to industrial inefficiency and lowered standards of living. These would intensify the existing economic unrest and lead to foreign wars and conquest as a means to expand national wealth and material well-being. The author courageously exposes the mistakes of narrow economic nationalism.

Having worked as economic adviser to the U. S. A Tariff Commission and the Agriculture and Commerce Departments of the Federal Govern-

ment he is eminently qualified to say something sane and useful on the future possibilities of world trade, tariffs, and agriculture. Fairer wages leading to better distribution of income according to him would increase the ability to consume and the productive surpluses of the nations can be safely exchanged under such conditions. Fairer wages lead to better and greater production thereby reducing the overhead charges. Stimulation of consumer's purchasing power by some means or other notably by Government expenditure or liberation of banking deposits and direct relief to the unemployed is the panacea. No one nation can permanently flourish while the other nations smart under economic disaster in this economically intertwined modern world. This is a thesis which has been taught to us by all economic thinkers since the days of Norman Angell's "Great Illusion." The economic sanity which he ardently preaches as the only remedy does not unfortunately dawn on the selfish-minded and egoistic nations of the modern day who are intent on working back towards medieval mercantilism.

Economic Internationalism is barely a century old. It has been torn by two decades of hate, greed and cowardice. The author who is an economic realist attempts to rebuild this shattered structure. He points out what the leading nations have to do in the respective fields of agriculture, industry and trade in order to regain their position of dominance. The book is divided into three parts. Parts one and two deal with industrial and financial organisation of the four above-mentioned nations. Part III is the constructive part detailing the general conclusions arrived at by the author. A cursory reader who does not understand or care for the highly condensed abstracts of foreign countries' economic organisation can read chapter one which is a summary of the entire book itself. Although he is an American and is able to realise the fact that America alone can dare to pursue the policy of national economic self-sufficiency he advises America to pursue an international economic policy. Says he, "We maintain the thesis that the United States with its buoyant economy's violent shifts from heedless booms to paralysing depressions, with its skyrocketting price-levels and their tobogganning crashes, *needs at every stage the corrective of imports* and is inevitably subject to the chastening influence of the comomdity and stock price-levels of older and more stable national economies." Britain's nationalism—as evidenced by the Imperial Preference Programme—is largely forced upon her but her real salvation lies in international economic cooperation. French economy with its expanded steel, iron and textile industries as a result of the Peace Treaty, needs foreign markets to export her surpluses. That economically crippled Germany needs international help needs no serious effort to prove. Her industrial economy demonstrates that any attempt to counter the world price-level is doomed to failure. No nation can dare to defy the equilibration of world prices for any length of time. Orderly export of long-term capital should not be checked. Gradual elimination of tariffs is another measure which would lead towards international recovery and friendship. "Sound economic planning, both national and international should emphasize increased not decreased production, better distribution of national income with resultant increased consumer's purchasing power, broadening of markets for export surpluses by reduction of trade barriers, and cessation of deflationary policies as currency depreciation—" is the author's remedy for securing economic recovery.

Part I deals with the basic economic situation in the four above-mentioned countries. All the four economies need external markets for disposing off their increasing surpluses. Imports should be cared for and not sacrificed on the ground of the false doctrine of economic self-sufficiency. Even the U. S. A. would have to care for imports of goods whose domestic production is far less than that needed. Germany like the United Kingdom should care for its imports. As a matter of fact Germany is only an economic complement of France and *vice versa.* There is a world of truth in the author's remark that "Germany and France need each other especially because of the close relations between their heavy industries and because their agricultural productions are complementary. Goodsense instead of passion might well be used to smooth Franco-German relations which have so disrupted the world during the last fifty years!

Part II deals with the banking and currency situation in the above economies. Apart from a useful description of their credit features the author clearly proves that changes in commodity prices do not follow implicitly changes in gold stock and the circulating medium as the Quantity Theory of Money would ask us to believe. Increasing gold stock in France and the U. S. A. during 1927—1933 has led to falling commodity prices. The author is shrewd enough to realise that currency factors *alone* are not responsible for changes in commodity prices—but production and business confidence *equally* influence the price-level. Granted sufficient time the price-levels of the different nations move together. If a country were to be so unwise as to control the national price-level independently of others by such devices as currency manipulation or tariffs economic maladjustment would result thereby. The initiating nation itself would be the chief sufferer in the long run.

Part III aims to state certain economic truths the realisation and practice of which alone can lead to world economic stability. A free adjustment of nâtional price-levels is a *sine qua non.* Stable banking systems, sound currencies and reduction of tariffs are absolutely essential for the above purpose. The maintenance of wages, stabilised exchanges and low tariffs would lead to prosperity even if the world price-level were to fall slowly.

National cost levels are influenced by a variety of factors. The chief items in cost of production are raw materials, wages, interest, depreciation, rent and taxes. Of these wages are the most important item. The ability to compete with other countries depends on the cost level. America has many cost advantages when compared with the other three economies. But as Prof. Cassel points out cost levels like price-levels tend to come to an adjustment. Tariff duties are levied to ward off foreign competition at lower costs. But it has tended uniformly to stimulate higher cost domestic production. The cost of this tariff-encouraged domestic production tends to raise the level of domestic costs. The low costs of the efficient producers in the tariff-subsidised industries and the specially low average costs of the efficient export industries tend to compensate.

Capital movements also complicate the economic situation and tend to influence the national price-levels. Foreign lending has its advantages as well as disadvantages. But the sudden cessation of foreign lending has pronounced effects on the creditor as well as the debtor countries. While short-term credits are usually taking place on account of financial and

political difficulties they have not been restoring world equilibrium. Normally speaking short-term credits should be granted to lower interest rates or affect gold movements. After the break-down of the gold standard foreign lending has ceased. But the economic truth that capital movements are desirable in certain cases and have pronounced effects on the national price-levels has to be recognised.

Tariff subsidies vitally affect the industrial organisation of the nation as well as the world. Apart from encouraging insecure users of capital an easy and ready equilibration of world prices is hindered. The other well-known tariff fallacies such as " high tariffs lead to expanded production and eventual lowering of costs and prices," " high tariff duty leads to high wages, tariffs are paid by consumers, and that tariff subsidies secure increasing profits" have to be vigorously refuted. These economic fallacies have to be exploded. Misled labour, deluded capital and stricken agriculture generally resort to the tariff. It has, however, to be recognised that a tariff is an *artificial interference* with the free play of economic forces. Tariffs tend to breed tariffs and international economy is disturbed thereby.

Tariff Boards all the world over would be able to check selfish nationalism and political intrigue which breed tariffs. Discriminating protection consists in equalising foreign and domestic costs but the difficulty of obtaining costs is not to be forgotten. Tariff bargaining and mutual concessions are resorted to, of late, but even this method is not highly useful for countries anticipating the tariff bargaining would pitch the initial scale of duties rather high. Tariff reduction by bargaining is disliked as it leads to the abandonment of the privilege of equal treatment. A general agreement to reduce tariffs by 10% in the first year, 10% in the second year and 20% in the third year might be ushered in just at present when world sentiment against tariffs is very strong.

Other world trade barriers such as control of imports and forcing of exports are becoming very common nowadays when short-sighted selfish nationalism is ruling the economic and political circles. These have to be swept away as early as economic conditions permit.

The book is the work of a well-equipped economist who has the happy knack of setting forth the rapid and radical economic changes, which are taking place in the four dominant countries of the world. The realisation of internationalism in the economic field is advocated. His recommendations have great practical significance today.

—B. RAMCHANDRA RAU

BALANCES OF PAYMENTS, 1931 and 1932. League of Nations, Geneva, 1933.

This publication needs no introduction. The students of economics and particularly of international economics are already familiar with it. The present volume contains some interesting statistics affording evidence of the effect of depreciation of currencies upon the balances of international payments.

In 1931 the countries with stable currencies have recorded a balance on account of goods and services. Since 1932, however, a change has come into evidence. The balances of payments on account of goods and services of countries with depreciated currencies have improved. The

reserves in their Central Banks have increased by over 500 million gold dollars. These remarks refer, however, to those countries for which full statistical information is available.

The volume opens with a summary statement of the balances of international payments. The tables given here are extremely interesting and worth a careful study by every student of international affairs. The following important facts stand out prominently upon a perusal of these tables.

There are only a few countries which have a positive balance on account of interest and dividends, the more important being the United States of America, France, Irish Free State and the United Kingdom.

Countries having a negative balance on account of what are called "other services" (shipping freights, expenditure of tourists, diplomatic and other government expenditure, transit earnings, etc.) are the Union of South Africa, Argentina, the United States of America, India, the Dutch East Indies and New Zealand.

The figures in the gold column will perhaps interest all readers. South Africa, Canada, Argentina, India, Japan, Germany and Australia have been big (net) exporters of gold. As an exception to this general statement it should be noted that the United States of America and the United Kingdom have exported considerable amounts of gold in 1932 and 1931 respectively. The greatest absorber of the yellow metal has been, not U. K., nor U. S. A., but France.

India had an adverse balance of trade on account of goods, services and gold, up to 1930-31, which was met by long and short-term capital movements. Since the abandonment of the gold standard by the United Kingdom conditions have changed in India. The heavy exports of gold have turned the balance in our favour and enabled us to effect the export of capital on short- and long-term accounts.

The only country which has exported capital, more or less regularly since 1929, is the United States of America. This is a fact of the greatest economic significance for a student who is interested in the study of the fundamental problems of world economics.

—J. K. MEHTA

PROCEEDINGS OF THE INTERNATINOAL CONFERENCE OF AGRICULTURAL ECONOMISTS—Third Conference, 1934.

This report of the Conference held in Germany is a very interesting document. We are told that " the main objective of this Conference was to draw out the divergent philosophies and policies of rural life in the various countries as well as to learn of the schemes devised nationally and internationally to assist agriculture." This object has been admirably achieved. There is hardly any important country representative or representatives from which has or have not given a full account of (1) the effects of the recent depression and (2) the measures adopted to overcome that depression.

In every country, except India, we find the Government adopting a definite price regulation policy. We are told that " the price policy was

a necessity for the state, if it wished to avoid the collapse of the peasent class, which would have vastly intensified the economic crisis."

The Report must be read by our Indian administrators and public men, so that they might realise what living nations and Governments have done and are doing for the masses put in their charge.

—B. G. B.

COMPANY LAW by K. J. Rustomji, published by Butterworths—Second edition (1934), pp. 856. Price Rs. 12.

Company legislation has received little attention even from our lawyers so far. The shareholder is generally ignorant of the affairs of the company in which he invests his savings. All that he wants is a fat dividend. For the economic development of a country, *inter alia*, a sound company law is essential. The Industrial Revolution in England would probably not have been possible without company promotion. Justice Buckley, in the famous London and Globe Corporation case remarked, "The Statutes relating to limited liability have probably done more than any legislation of the last fifty years to further the commercial prosperity of the country...." An eminent author says that the invention of limited liability ranks in importance with that of the steam engine, the two representing complementary aspects of a process which in less than 150 years has transformed the whole face of the globe.

In India the first Act was passed in 1850, based on the English legislation of 1844. Since then several changes have been effected, the principal ones being introduced in 1862, 1888 and 1913. The Act of 1913 is a codified legislation based on the English Act of 1908. The English Act was thoroughly revised in 1929 and our Act, we understand, is on the anvil. In fact, a change is long overdue.

Mr. Rustomji's commentary on the Indian Company Law is a very comprehensive and learned work on the subject. He is a writer well known to the legal practitioners. His Company Law too is a standard work.

The contents of his book are:—

(1) It has got a comparative table of sections of the Indian Law as well as of the English Law of 1908 and of 1929.

(2) A complete table of cases, both Indian and English properly grouped for easy reference.

(3) A short alphabetical synopsis.

(4) A selected bibliography.

(5) An addendum wherein the author gives the cases, that were being reported while the edition under review was passing through the press. This shows the concern of the author to make his work up-to-date.

(6) A section-wise commentary both of the Act as well as of Table A. Every important section is followed by a learned

commentary. Leading English and Indian cases bearing on the section are cited. The commentary is both exhaustive and helpful.

(7) At the end forms of various documents necessary in company promotion and a table of stamp fee etc., are given.

Under Section I, the author has given the principal changes effected by the English Act of 1929.

The book is sure to prove useful both to the practising lawyer as well as to the serious student of the Company Law.

—K. L. G.

WISDOM AND WASTE IN THE PUNJAB VILLAGE, M. L. Darling, C.I.E., I.C.S., Oxford University Press, 1934, pp. 368. Price Rs. 8.

This is the third of Mr. Darling's interesting books on agricultural conditions. In 1925 he published '*The Punjab Peasant in Prosperity and Debt*' which dealt with agricultural indebtedness. This was followed five years later by '*Rusticus Loquitur or The Old Light and the New in the Punjab Village*' which described a tour on horseback and gave an interesting side light of the thoughts of the peasant on questions other than debt. The peasant spoke for himself. Hence the title '*Rusticus Loquitur.*' Mr. Darling has now published a third which he began in 1930-31 in another tour of the same character and he attempts to describe aspects of village life which he had not hitherto considered; for example the village servant, the life of the village woman, the influence of the army and of the school on the peasant, the peasant's tendency to hoard and the effects of economic depression notably in the canal colonies. In the space of sixteen chapters with fifteen illustrations and a map he gives a useful picture of the effect of the fall in prices on village life, especially on the curtailment of marriage expenditures and other matters of great importance to the village. He deals with reconstruction, feud and faction, and cattle breeding in a chapter full of useful information to the economist. In Chapter XII on 'A New Canal Colony and the Fall in Prices' we have an excellent sketch of present conditions in the irrigated areas of the Punjab.

Part V which in some respects is the most interesting piece of descriptive economics of village life written in recent years will make a strong appeal to those who regard the large increase in population as a main cause of the low standard of living in India today. He recalls that in 1928 he was informed that in the eyes of most an unmarried daughter of sixteen 'indicated some defect in the brain of the parents or their financial position' and he points out that the result of this attitude is the existence in India today of about 12,000,000 wives and 300,000 widows under the age of fifteen. In one High School he met a Hindu boy of thirteen who was living with a wife only twelve years old and a Sikh boy of sixteen who has already lost both wife and child. In another school out of 198 boys in the four upper classes 66 were married and 26 had started living with their wives. 'On my last tour the first woman interviewed, a Hindu Jatni, was married at the age of four and her husband was only

nine, an age at which she had recently married her eldest daughter. The second woman, also a Hindu Jatni, was married so young that she could not remember coming to her husband's home. A Muslim woman met later on the borders of Kashmir said the same. The two women interviewed in the Nili Bar had fared a little better. One, a Muslim, was married at eleven, and so was her daughter; the other, a Sikh Jatni, was married at twelve. The submontane Hindu Rajputs usually betroth their girls at five or six, and in the eastern Punjab, where Hindu influence or tradition is strong, marriages are generally consummated at thirteen or fourteen. In the barren north and west, where 90 per cent are Muslim, they take place three or four years later; and in the sandy wastes bordering on the Indus girls are not married till 20 or even 25. So too was it among the Janglis, till the canal gave them the means of supporting larger families. Now they marry their girls at 14 or 15. There has also been a drop of a year or two in the Salt Range where the army has brought prosperity. 'Before we were poor,' said an old man when we were discussing this. Elsewhere I have said that an increase of prosperity leads to an increase of population, and it would seem that, where the former is not accompanied by education, it may also lead to earlier marriage. Early marriage is naturally followed by early birth. The first Hindu Jatni I met became a mother at 14, the second at 15, and the Muslim at 16. This is typical, and from it springs all the wastage of a birth and death rate which are higher in the Punjab than in any other province except the Central Provinces. Each of the two Hindu Jatnis had had eight children, and of the 16 only 9 had survived, and it was pathetically clear that another was doomed.' Here we have the collection of first-hand facts and in the words of James Mill 'the grand practical problem, therefore, is to find the means of limiting the number of births.' The material blessings in Mr. Darling's view are neutralized by an increase in population and the Canal Colony districts are no exception to this rule.

In Chapter XV on the Village Movement, Mr. Darling shows great familiarity with village life and he quotes the view of Indian women on social questions. Mr. Darling on whatever problem he is writing, invariably illustrates his text with actual examples. Thus on the question of the decline of infanticide and the importance of woman's position, he shows that Hindu Rajputs and Sikh Jats no longer practise infanticide as they used to do. 'And the Hindu B.A. an Arora, gave me a concrete instance of a similar change in his own family. His grandmother had four sons and thirteen daughters, but allowed only one of the thirteen to survive birth; the others were given an overdose of opium. His mother got rid of one of her two daughters in the same way, but her husband compelled her to do penance for two years. This kind of thing is now unheard of in his part of the province (in almost any part, indeed) and he himself loves his daughters best. The case illustrates a momentous turning point in the emancipation of women.' Mr. Darling is not in favour of co-education as is Mr. Brayne. He found on his tours opinion unanimously against it after the age of puberty and much divided about it before then. Broadly he thinks that the country is not yet ripe for co-education and he points out the countries in Europe like France do not believe in it. 'At the same time, in a poor country like India with a vast population to be educated it is eminently desirable in the primary stage, and I am inclined to think that with persuation many might be brought to support

it, but only in schools where the staff has been carefully selected. In the village almost anything is possible if the right person leads.'

The main lesson of this book is that the rise in the standard of living and the spread of education in the world have affected family life in the Punjab. The relation between husband and wife has became closer and taken the place of relation between mother and son. Everywhere the power of the mother-in-law is being shaken in educated households. Especially among the Sikhs there is a closer tie between husband and wife. 'If settled government continues, this is likely to be the most far-reaching effect of British rule. With the new orientation, inequalities between the sexes are less marked, wives are better treated in the matter of food and dress and more freely consulted in household affairs, and education is no longer regarded as superfluous for girls. This in its turn is leading to somewhat later marriages and to a more careful choice of bride and bridegroom.' Another conclusion is that village morals are sound and the general level of domestic happiness is high. The education given to girls should not be entirely of secular character and on no account should the home be superseded by the school. The greatest need is better training of children in childhood but as Mr. Darling points out this is difficult with constant child bearing and quite impossible where the field work is as heavy as it is in the south-east Punjab. He is anxious, therefore, to see that the whole question of control over the increase in population should be considered and a policy formulated. This interesting book ends with a quotation of the woman of Sialkot who remarked that 'there is a great change; a new wind blows.' That is the keynote of the book.

G. FINDLAY SHIRRAS

THE GREAT DEPRESSION by Lionel Robbins, Professor of Economics, University of London. Macmillan & Co., pp. 238. Price 8*s*. 6*d*.

In the book the distinguished Professor proposes "to furnish a succinct commentary on the more conspicuous features of the slump and its antecedents." After a masterly analysis of the different aspects of the problem, the author puts forward some proposals for recovery.

The first Chapter is devoted to an examination of the political and economic background of the depression with a view to enable us to understand its causes. During the century ending with 1914 the economic mechanism of the world was able to adjust itself to recurring depressions without any catastrophic changes. The huge mechanical equipment which was called into being by the needs of war was rendered superfluous by the resumption of peace. Though the professed object of the war was the ending of nationalistic friction, the actual result was a heightening of national exclusiveness which resulted in the disruption of the markets of the world. This led to the destruction of capital, the restriction of the area within which division of labour had scope and the break-up of international monetary unity. The conclusion of peace was followed by a period of economic chaos marked first by an inflation and then a depreciation of the currencies of Europe amounting almost to a virtual annihilation of their values. Trade was severely curtailed, the economic

structure of nations was dislocated, middle-class resources were wiped out, capital consumed, and prices fell to undreamt-of depths.

There was no doubt an industrial boom between 1925 and 1929, a boom which was one of the biggest in economic history. This boom was not evident in all industries including agriculture, nor did it spread to all countries. The Stabilisation of European currencies and the fixing of new parities were not based on any scientific plan or method. Such conditions naturally paved the way for the depression, signs of which, according to the author, were discernible even in the last months of 1928 when the flow of American lending to Germany began to slacken. The Hatry Swindles came up in 1929 and there was a sympathetic movement in New York and by October 23rd industrial shares in that city dropped by about 21 points according to Dow-Jones' Index. Six days later there was a further drop of 76 points. The depression that marked the years from 1929 to 1933 was the greatest on record. This depression has dwarfed all preceding movements both in magnitude and in intensity. Production in the chief manufacturing countries shrank by 30 to 50% and according to the International Labour Office calculations. the unemployed in 1933 numbered 30 millions.

In the next Chapter the author examines the causes that are generally put forward to explain this depression and points out how each one of them taken by itself cannot account for all the known facts. The fall in prices cannot have caused the depression since prices are the resultant of the conditions of supply and demand. The fall in prices has accentuated the difficulties in the period of depression but it is only a symptom of the disease and it does not go to the root of the trouble. To explain the slump it is not enough to take into account merely the prices but it is necessary to go behind them and examine the conditions that had led to the fall in prices. The real solution must be sought either in the commodities supplied or in the demand expressed in terms of money. It is often urged that the slump is due to over-production; this theory also has to be discounted since the unparalleled economic disturbances could not have been produced merely by a super-abundance of commodities. Turning to monetary causes deliberate deflation as the sole cause of depression is also rejected by the author. He points out that an examination of the policies of the Central Banks does not support the view that there was deliberate deflation. Again statistics and the data disprove the view that there was a shortage of gold. The maldistribution of gold and the concentration of it in France and America was an effect rather than a cause of the depression, since these countries began to sterilise gold only after the depression set in. The disequilibrium of British economy must be regarded as being more responsible for the slump than the cornering of gold by France and America. If the slump was due merely to monetary conditions the difficulties could have been overcome completely by monetary adjustments. It is therefore true to say that no single cause can be said to account for these colossal disturbances but various causes such as political accidents, deliberate policies, structural weakness and local psychology must all have contributed their share to bring them about. Other contributory causes for the depression were technical improvements in agriculture resulting in cheaper agricultural production and the Hawley-Smoot Tariff in the United States of America which increased the difficulties of debtor nations. The economic system could not survive

these difficulties without a break-down since its efficiency was impaired by restriction schemes, by rigid conditions in the labour market, cartel prices and similar economic factors.

According to the author, the depression mainly related to constructional and raw-material producing industries; and in the United States of America, the policy of relief given to business by tariffs, restriction schemes, Reconstruction Finance Corporations and the Federal Farm Board served only to prolong and intensify it.

The author next takes up Great Britain's share in the financial crises. The return of Britain to the gold standard in 1925 at the old parity instead of a devalued basis was a fruitful cause of many evils. It jeopardised her position in the world market and for the next four years abnormal conditions prevailed in the money market and the dollar-sterling rate tended to go down. Hence fears arose regarding foreign lending. During this period low income and high withdrawable short-term deposits from other countries were noticeable. The author asserts that the cause of trouble in England was not the boom, but the rigidity of the wage level. A fall of German economy and political tension led to withdrawals from England; these combined with the low bank rate forced England to suspend the Gold Standard.

The chaos and confusion that prevailed in the economic world after England went off the Gold Standard is outlined in the next Chapter. Though Germany was technically on the Gold Standard, many causes contributed to a deflation of her currency. In England the abandonment of the Gold Standard affected her external relations: her foreign imports fell, the real value of the debts owing to Britain became less, and the export trade showed no signs of improvement in spite of the cheapness of Sterling. Many other countries abandoned the Gold Standard and those that remained on gold had disastrous deflation. The fall of Sterling resulted in great loss to foreign countries and there was a consequent struggle for liquidity and for short-term credit and a shyness for reinvestment. All relics of mediæval trade regulation such as tariffs, prohibitions, etc., came back to favour tending to dislocate the markets and currencies of the world.

In the Summer of 1932 there was a revival of trade owing to many factors, chief of which was the Reparations Conference, though the Gold Block countries were still in difficulties. Soon after England rejected the offer of America of a writing off of a good portion of her debts in return for the stabilisation of Sterling; and this was followed by the American bank crisis leading to the virtual abandonment of the Gold Standard by America. The World Economic Conference also failed to secure stabilisation of currencies since President Roosevelt wanted to regain the agricultural prices of 1926.

The various nations of the world next began to experiment with ideas of restriction and planning. The author next considers the difficulties involved in the rstriction of hours of labour and production. He points out that restriction of hours is inimical both to employment and production. Discussing the restriction of production in particular areas, the author opines that this cannot bring about a balanced economy since it retards technical progress and injures the interests of individual producers.

Professor Robbins thinks that planning means either helping particular industries at the expense of others or central control of the means

of production. In the latter case it is only a polite name for Socialism. Though an increasing number of economists tend to equate planning with Socialism, planning need not involve the wiping out of the capitalistic order of society; it can mean the rectification of all those aspects of capitalistic activity which have resulted in friction and disharmony. In a well-planned State the greatest happiness of the greatest number can be secured by the enlightened co-operation of workers, capitalists and Government. This would mean that in a planned economy, the interests of the consumer should be paramount. The learned Professor thinks that it is practically impossible to ascertain the preferences of the consumer and any attempt to do so would be only infinite pains and labour expended absolutely to no purpose. Few can agree with this view: in these democratic times it is found easy to find out the average man's political, social, religious and æsthetic preferences and it is difficult to believe that his economic preferences alone are of so subtle a character that human ingenuity should retreat baffled before it confessing its discomfiture.

Though the author admits that it is impossible to secure an absolutely stable recovery he believes that recovery of a more or less stable kind can be secured by keeping certain maxims clearly in mind. The first condition of recovery is the return of business confidence. This has to be secured by avoiding monetary disturbances by the stabilisation of foreign exchanges. The Professor holds that this should not wait indefinitely a rise in the price level; nor should a pre-slump price level be artificially secured by monetary manipulation. But a provisional stabilisation will increase confidence and induce greater spending and a greater demand will serve to raise up the price level. This provisional stabilisation should be given a fair chance, permanent stabilisation being attempted only after an international flow of goods and money is secured. Careful and cautious activity will tend to an eventual restoration of an international monetary system Caution and conservatism also mark his attitude towards protection which he says should be progressively abolished. He is opposed to rigid wage rates and deprecates state action that tends to bolster up particular industries or to encourage monopolies. He believes that capitalism alone can lift the world out of the depression and that what is wanted is not greater intervention by the State but an abandonment of intervention—in other words, free trade, free prices, and free wages. He says he is not pleading for *laissez faire* but what he advocates seems to

The book is a very clever and eloquent presentation of a particular point of view. The usefulness of the book is enhanced by the statistical appendix.

—B. V. NARAYANSWAMY

SURVEY OF THE MARKETING OF FRUIT IN POONA, by Gadgil, D. R., and Gadgil, V. R. (Pub. 3 of the Gokhale Institute of Politics and Economics, 1933. Rs. 2-8-0).

This is a creditable piece of work. With the awakening interest in the development of the economic resources of India, the problem of marketing is one of great importance and for a correct initiation of improved methods, an accurrate diagnosis of the existing conditions in the trade and

commerce of the country is of absolute necessity. This book fulfils these conditions in so far as the fruit trade of the Poona District is concerned.

The book is in eight chapters:—Introduction; Production and Supply of Fruit; Distribution; Reay Market, Poona; Costs of Distribution; Transportation; Preparation of Fruit for Market; and Summary of Conclusions and Recommendations. The inquiry was started in July 1931 and occupied over a year with a further twelve months for compilation and digestion of the mass of material collected. Considering the area which the single investigator had to cover, most interesting data have been collected covering all operations in the trade from the grower to the retailer.

At the outset the authors felt the dearth of comprehensive official data (such as acreage under fruit trees), only a limited amount of help being forthcoming from the District Gazetteer, the Statistical Atlas of Bombay Presidency, and a note by the Bombay Fruit Expert. Such gaps in official statistics are usually met with and it would be a step in the right direction if each province over-hauled its statistics to bring them in line with modern requirements. Data were however extracted from village records and showed the acreage under fruit as 6,637—oranges 2,252, bananas 1,556, pomegranates 808, guavas 804, and rest under fruits like figs, lemons, papayas and mangoes. On the basis of this information useful maps have been prepared showing the distribution of the important fruit trees in the District.

During the inquiry incidental data became available to work out the size of holdings and it was found that the majority of the cultivators had such small areas under fruit that fruit growing was not an exclusive profession but was merely a part of the whole agricultural unit—though in many cases it meant an important money-bringing part.

From municipal records the author estimates the annual import of fruit into the Poona city at about 2 lakh maunds: most of it goes on to Bombay. The seasonal factor in various fruits is also dealt with. All the fruit is sent by railway but the authors were not allowed access to the statistical data maintained at railway offices. This is deplorable as the railways had nothing to lose and everything to gain by giving publicity to such data.

The description of the different functionaries operating in the trade is illuminating. The first is the *khotidar* or pre-harvest contractor, roughly equivalent to the English "country buyer." These persons are men of no substance and are enabled to trade only by means of the advances they obtain from commission salesmen in Bombay or Poona; and throughout a fear of default by them is generally entertained by the sellers to a considerable extent. The next functionary is the *hundikari* or the forwarding agent. It was found that he never collects the amount of his bills from the grower directly but always through the commission salesman in Bombay through whom nearly all the fruit is disposed of. Sale is by auction either open or under a peice of cloth. Among those questioned only a small proportion were definitely in favour of the adoption of open auction, while a large number "did not hold any definite opinion on the subject." Fruit is also sold by private treaty. Commission is charged as a percentage of sale price or by levying a flat rate per package. Other charges made are for transport. octroi, porterage, postage, *batta* (charge for money-changing), rent charges and *dharmadaya* (charity): it was

generally suspected that many of these charges went to swell the salesman's profits. The next two operatives are the wholesaler and the retailer. Descriptions of the Byculla and Crawford markets in Bombay and the Reay market in Poona are given and the financing of the fruit trade dealt with in detail. It was found that the forwarding agent's bill and the salesman's commission formed as much as 42'3 per cent of the sale price; in Poona the *dalal's* charges came to nearly 11 per cent.

This is one of the best economic surveys made so far in the country and we hope similar surveys will be undertaken in other parts of the country as well; information such as is contained in this book should be of value in developing our internal trade since the slogan "Eat more fruit" is as applicable in India as elsewhere. We congratulate the authors on this peice of work.

C. P. K. F.

THE INDIAN PEASANT AND HIS ENVIRONMENT, by N. Gangulee. published by Oxford University Press, 1935. pp. 230.

In the present volume some of the problems that confront the Indian country-side and its inhabitants are discussed. The author observes "Since 1910 I have had opportunities of being closely associated with Indian rural life and of studying its problems." What the author has done in this book is to publish a number of letters addressed to friends in and out of India, as well as extracts from his diary dealing with rural topics. He has arranged the letters under five heads, (1) Glimpses into Indian Village, (2) Economic Life of Rural India, (3) Social Life, Education and Health in Rural India. (4) Rural Reconstruction in India, and (5) The Government of the Masses.

Chapters I, II and III are mostly descriptive and give a fairly full idea of economic and social conditions prevailing in the Indian villages while Chapters IV and V are constructive and give us an idea of what Dr. Gangulee, if given a free hand, would do to bring about social and economic regeneration of the agricultural masses of India. It is these two chapters which reveal Dr. Gangulee as a man of ideas who cannot only think for himself, but who. also has the courage of his convictions and has no hesitation in saying what he feels about a certain measure either adopted by Government or by the Indian National Congress under the inspiration of the Mahatama. Thus writing about Local Self-Government he observes, "We both regretted that Lord Ripon's reform of Local Self-Government in the eighties was rendered more or less sterile by the safeguards imposed on them. Were the safeguards or rather, the limitations, alone responsible for the failure of Local Self-Government? I believe the indifference of our educated classes towards local bodies, due partly to the lures of town life and largely to scepticism in regard to the revival of village communities has sterilized the efforts in their very inception. I do not. however, underestimate the evil influences of over centralisation."

It is a pleasure to note that Dr. Gangulee is not a believer in the wholesale westernisation of Indian agricultural practices. He would conserve what is good in the existing system and change drastically where a change is called for. We feel great pleasure in recommending this book to people interested in rural reconstruction.

—B. G. B.

THE FISCAL AUTONOMY CONVENTION UNDER THE NEW CONSTITUTION

BY

B. N. GANGULY,

Professor of Economics, Hindu College, Delhi and Reader in Economics, Delhi University.

As fiscal autonomy implies the exercise of political sovereignty in a particular economic sphere it has an external as well as an internal aspect. Viewed externally fiscal autonomy would imply, in the case of India, freedom to negotiate and conclude tariff treaties, based on quota arrangements and reciprocal reduction of tariff rates, particularly with non-Empire countries which may absorb the bulk of Indian exports. Internally it would imply the freedom to use the tariff, bounties and subsidies for the encouragement of trade or industry which is intended for the direct benefit of the inhabitants of the country.

In India fiscal autonomy has been based on a conventional understanding the origin of which is to be found in the Report of the Joint Select Committee on the Government of India Bill of 1919. In dealing with Clause 33 of the Bill the Joint Select Committee remarked that in their opinion "The Secretary of State should as far as possible avoid interference on this subject (*i.e.*, fiscal policy) when the Government of India and its legislature are in agreement, and they think that this intervention, when it does take place, should be limited to safeguarding the international obligations of the Empire or any fiscal arrangements within the Empire to which His Majesty's Government is a party." In laying down this Convention the Committee felt that if India had unfettered freedom to negotiate and conclude trade agreements and manipulate the tariff to her own advantage tariff discrimination and bargaining might introduce political complications into the relations of Great Britain with non-Empire countries. At the same time the Committee wanted to prevent India from using her tariff in a way that would militate against the tariff arrangements which Great Britain might think necessary for inter-Imperial economic unity and harmony. After the introduction of the reforms of 1919 the Fiscal Autonomy Convention was honoured in respect of the tariff adjustments based on the newly-accepted policy of discriminating protection. But

no definite constitutional principle seems to have governed the commercial and other fiscal agreements to which India recently became a party. In the case of the Indo-Japanese Trade Agreement the negotiations between the contracting parties were carried on in India and the Agreement itself was also signed in India. The provisions relating to the regulation of imports of Japanese cotton piecegoods into India came into force on the 8th January, 1934, but at the same time the Convention and Protocol regarding the commercial relations between India and Japan were signed in London on the 12th July, 1934. On the other hand the Bombay-Lancashire Agreement was passed by the Indian legislature and subsequently the Cotton Textile (Amendment) Act of 1934 included such provisions of the Agreement as could be carried into effect at that time. Similarly the fiscal proposals embodied in the Ottawa Agreement were incorporated into the tariff legislation after the Agreement itself had been ratified by the Indian legislature. Recently, however, the Indo-British Agreement, containing fiscal principles of far-reaching economic importance, was accepted by the Government of India in spite of the adverse vote of the Indian legislature. On the whole, therefore, whether we look to the implications of the Convention as adumbrated by the Joint Select Committee on the Government of India Bill of 1919, or to actual practice we find that the fiscal autonomy permitted to India has always had a restricted scope which is at the same time vague and ill-defined.

Let us now try to understand the nature and scope of the fiscal autonomy which India is supposed to enjoy under the new constitution. This question was immediately raised to the level of a controversy as soon as the Report of the Joint Parliamentary Committee was published. In paragraph 343 of this report it was declared that " With the passing of a new constitution on the lines of the recommendations we make in this report the Convention, in its present form at all events, will lapse." But as it was not definitely explained why the Convention should lapse there was a reasonable apprehension that the British Parliament, in their anxiety to stiffen the economic safeguards so as to prevent commercial discrimination against British industries, would eventually feel no hesitation in allowing the Convention to lapse. Later on when the Government of India Bill which was based on the White Paper proposals was published it was discovered that section 12 (f) of the Bill distinctly laid down, that the Governor-General will have a special responsibility in " The prevention of action which would subject goods of United Kingdom or Burmese origin imported into India to discriminatory

or penal treatment," and in regard to such responsibility, "He shall, in the exercise of his functions, exercise his individual judgment as to the action taken."[1] Sir Samuel Hoare speaking later in the House of Commons on this point assured the Parliament that the spirit in which such a provision will be enforced would be fully explained in the Instrument of Instructions. Moreover while giving an assurance that the Fiscal Autonomy Convention is not going to lapse he said, "It is our intention to continue the same fiscal autonomy as existed in India in the past fourteen years." But at the same time he felt convinced that "British imports to India will receive the same consideration as under the present Convention and the powers in the Bill, if ever they have to be used, will be adequate." To catch the spirit in which the special powers under Section 12 (f) are likely to be exercised it is necessary, therefore, to refer to Clause XIV of the Instrument of Instructions. In this clause while the Governor-General is asked to "Avoid action which would affect the competence of his government and of the Federal Legislature to develop their own fiscal and economic policy or would restrict their freedom to negotiate trade agreements whether with the United Kingdom or with other countries for the securing of mutual tariff concessions," he is also enjoined, "To intervene in tariff policy or in the negotiation of tariff agreements only if, in his opinion, the main intention of the policy contemplated is by trade restrictions to injure the interests of the United Kingdom rather than to further the economic interests of India." Discriminatory or penal treatment covered by his special responsibility is to include—(1) "Direct discrimination (whether by means of differential tariff rates or by means of differential restrictions on imports)"; (2) "Indirect discrimination by means of differential treatment of various types of products"; (3) "Prohibitory tariffs or restrictions if he is satisfied that such measures are proposed with the aforesaid intention"; and (4) "Measures which though not discriminatory or penal in form would be so in fact." It is true no doubt that India's right to develop her own fiscal and economic policy and to negotiate trade agreements on the basis of reciprocity has been clearly recognised here, but at the same time it is not necessary to read between the lines to

[1] Under Section 14 of the Government of India Act of 1935, in exercising his individual judgment the Governor-General will be under the "general control" of the Secretary of State and shall comply with "particular directions" given to him by the latter consistently with the Instrument of Instructions.

notice that discriminatory or penal treatment of British goods has been defined here in such a comprehensive manner as to leave no loop-holes and make the safeguard as effective as possible. At best the nature of what is "Discriminatory or penal treatment" will, in actual practice, remain a subject of economic, if not political, controversy, and the scope of India's fiscal autonomy, as limited by the safeguard explained above, will be necessarily ill-defined and arbitrary.

The unfavourable impression created by the vague constitutional position as regards India's fiscal autonomy has been further intensified by the reactionary views expressed by the Lancashire delegation in the course of their evidence before the Joint Parliamentary Committee. In their written memorandum they had naively observed that "A far-seeing Government of India would have good cause to hesitate from saddling India with too rapid a growth of its cotton industry." Sir Pheroze Sethna in asking the witness to withdraw this statement said, "Would you not think it advisable to withdraw that paragraph because the implication of that paragraph amounts to this that you would like India to continue in perpetuity to supply the markets for British manufactured goods and not attempt to develop her indigenous industries?" The reply that was unhesitatingly given was, "No, we do not agree to that." But the most revealing part of the cross-examination was the attempt to define the scope of India's fiscal autonomy. The witness was directly asked, "Does your delegation ask for any greater power in dealing with India than we have at present in dealing with Australia in regard to fiscal independence?" The answer which was equally frank and direct was, "The Governor-General will have power of vetoing legislation. Now in so far as the Governor-General acting at his own discretion will be under the orders of the Secretary of State the Secretary of State could be expected to control the veto of the Governor-General in such a manner as to regulate the Fiscal Autonomy Convention. This would be the situation which would arise in India and would be different from that in Australia."

Again when we examine the implications of the Indo-British Agreement, which at present defines the fiscal principles governing the commercial relations between Great Britain and India, we also find that India's fiscal autonomy has been circumscribed by important limitations. In the first place, the minimum margin of preference allowed to Great Britain will seriously interfere with the negotiation of commercial treaties with non-Empire countries on the basis of reciprocity, because the most-favoured-nation treatment which is limited by the minimum preference

being granted to Great Britain will hardly be a concession worth purchasing.[2] In the second place, bargaining tariff as well as retaliatory tariff may also be ruled out on the ground that they will have economic and political repercussions unfavourable to Great Britain or the British Commonwealth. Lastly, conceding to an interested British industry the right to cause enquiries to be made regarding the appropriateness of the existing duties during the period of protection assured to an Indian industry amounts to external interference with fiscal autonomy.[3] Indeed it is quite clear that if the representatives of a British industry can prove that British goods are subject to discriminatory or penal treatment the Governor-General will exercise his special responsibility irrespective of what the legislature may or may not do.

In conclusion it is necessary to emphasise that if, according to our definition, fiscal autonomy in the strict sense of the term implies "The freedom to use the tariff, bounties and subsidies for the encouragement of trade or industry which is intended for the direct benefit of the inhabitants of the country," then India's fiscal autonomy in this respect also is subject to an important limitation. Under section 116 of the new Act, subject to certain conditions "companies incorporated, whether before or after the passing of this Act, by or under the laws of the United Kingdom and carrying on business in India shall be eligible for any grant, bounty or subsidy payable out of public moneys in India for the encouragement of any trade or industry, to the same extent as companies incorporated by or under the laws of British India are eligible therefor."

[2] Cf. Clause 3(3) of the Indo-British Agreement.

[3] *Ibid.*, Clause 4.

SOME ECONOMIC AND FINANCIAL ASPECTS OF THE NEW INDIAN CONSTITUTION

BY

D. N. BANERJEE,

Reader and Head of the Department of Economics and Politics, University of Dacca.

I

INTRODUCTION.

I propose to discuss in this paper some of the economic and financial aspects of the new Indian Constitution as embodied in the Government of India Act, 1935. The specific points which I should like to deal with are the provisions in the Constitution

(*i*) for the prevention of—

(*a*) administrative and legislative discrimination against British commercial interests and British trade in India, and

(*b*) discrimination against British imports into India, and

(*ii*) the provisions therein that relate to popular control over the expenditure of the Federal Government. I shall in particular examine in this connexion the nature and extent of this control.

II

COMMERCIAL DISCRIMINATION.

Sections 111—118 of Chapter III of Part V of the Government of India Act, 1935, referred to hereinafter as the Constitution Act, together with Section 12(1) (*e*) and 52(1) (*d*) thereof, are intended to prevent administrative and legislative discrimination in India, chiefly against British trade, commerce, industry, or shipping. These provisions of the Act have been based upon the relevant White Paper proposals[1] *as elaborated* by the confidential Memorandum on the same question, dated the 3rd November, 1933, which the Secretary of State for India submit-

[1] *White Paper, Proposals*, 122—124.

ted to the Parliamentary Joint Select Committee on Indian Reforms on the 6th November, 1933, and *as supplemented* by the pertinent recommendations of the Joint Select Committee (1934).

The Act makes, however, two departures from the position as originally envisaged either in the White Paper, or the Confidential Memorandum, or the Report of the Joint Select Committee. In the first place, it has forbidden any discriminatory action, legislative or administrative against any British aircraft (Section 115(2)); and, secondly, it has prohibited any discriminatory taxation against British subjects domiciled in Burma or against any company incorporated, whether before or after *its* enactment, by or under the laws of Burma (Section 112 (1)).

I have elsewhere[2] fully examined the proposals as originally made by His Majesty's Government for preventing administrative or legislative discrimination against British commercial interests and British trade in India, and discussed in that connection their probable effects, if they were given a statutory form, upon the development of the comparatively young Indian industries or the newly-started Indian Companies, in view of the fact that the latter would have to compete with the well-established and well-organized British concerns with enormous resources in men, money, skill, and experience at their back. For instance, it was proposed that, on the administrative side, the Governor-General or the Governor would have—each in his own sphere—a special responsibility for the prevention of commercial discrimination, and would be entitled to act, subject to the directions contained in his Instrument of Instructions, otherwise than in accordance with his Ministers' advice, if he considered that such advice would involve discriminatory action in the administrative sphere. And it would be for the Governor-General or the Governor, as the case might be, to determine *in his discretion* when his special responsibility in this respect was involved by any given circumstances. Those proposals as supplemented by the recommendations of the Joint Select Committee, have now been actually incorporated in the Constitution Act.

What, therefore, I have already said in regard to them does apply equally well to the corresponding provisions of the Act. These specific commercial safeguards in the Constitution will undoubtedly retard the growth of *Indian* industries and *Indian* commerce in this country. Besides, they will encourage the establishment of non-Indian industrial enterprises in India behind

[2] Vide *The Reforms Scheme : A Critical Study* (Longmans), 1935, pp. 48—66; also pp 122—125.

the tariff wall which its Legislature has gradually built up, and which it is likely to maintain, for the protection and development of its indigenous industries. This will be specially favoured by Section 116 of the Constitution Act, which lays down, among other things, that, "notwithstanding anything in any Act of the Federal Legislature or of a Provincial Legislature, companies incorporated, whether before or after the passing of this Act (*i.e.*, the Constitution Act), by or under the laws of the United Kingdom and carrying on business in India shall be eligible for any grant, bounty or subsidy payable out of the revenues of the Federation or of a Province for the encouragement of any trade or industry to the same extent as companies incorporated by or under the laws of British India are eligible therefor." Indeed, it will be difficult for India to devise and follow a national economic policy under its new Constitution. With regard to the provisions for reciprocity in the Constitution, I should only like to reiterate here what I established in another connexion[3], namely, that the appearance of reciprocity is delusive and that the principle of reciprocity will, for all practical purposes, work to the advantage of only one party, namely, British subjects of His Majesty and British Companies trading in India. Moreover, it must be borne in mind that it will, as Sir Samuel Hoare made it definitely clear in the course of his evidence[4] before the Joint Select Committee, be left entirely to the discretion of the Governor-General or the Governor, as the case may be, to determine whether there has been made any discrimination in any particular administrative act by a Federal or provincial Minister, and that the power of the Governor-General or the Governor in this respect will be "*unlimited and undefined.*" One can easily imagine from this the amount of freedom which the Indian Minister will enjoy in regard to matters under our consideration under the new Constitution.

Finally, what is *intra vires* for the Indian Legislature now will be *ultra vires* hereafter for the Federal Legislature or for a Provincial Legislature under the commercial safeguards in the new Constitution. For instance, under Section 115 of the Government of India Act, 1935, any kind of discrimination against British shipping in the coastal traffic of this country will ordinarily be automatically *ultra vires*. As I have stated elsewhere[5] even under the existing constitution of India it has been

3 Vide *The Reforms Scheme*, etc., pp. 57—60; also App. D.

4 Vide *His replies to Questions*, Nos. 15417—15423.

5 *The Reforms Scheme*, pp. 55—57.

possible for Mr. S. N. Haji to introduce into the Legislative Assembly his Bill to reserve the coastal traffic of India to Indian vessels. But it will ordinarily be quite *ultra vires* for the Federal Legislature under the new Constitution to entertain any such Bill. It will be within the competence of the Federal Legislature to entertain such a Bill if and when an English law will discriminate against Indian shipping in the coastal traffic of England. Such a contingency, however, will not arise either in the near or even in the distant future. England has no need of enacting such a law as there is not even a remote possibility of a ship registered in British India becoming a rival and a menace to ships registered in the United Kingdom in the coastal trade of the latter. So the underlying principle of reciprocity in this connexion is absolutely meaningless. Thus the position in this respect, as in regard to many others of similar nature, will be much worse under the new Constitution than what it is to-day.

III

Discrimination Against British Imports into India and Fiscal Autonomy Convention.

In the exercise of his functions the Governor-General will have under Section 12 of the Constitution Act several special responsibilities. One of these special responsibilities will be "the prevention of action which would subject goods of United Kingdom origin imported into India to discriminatory or penal treatment." Under Section 12(2) of the Act, if and in so far as any such special responsibility is involved, the Governor-General shall in the discharge of his functions exercise his *individual judgment* as to the action to be taken. And if any question arises whether any matter is or is not a matter in regard to which the Governor-General is by or under the Act required to act *in his discretion* or to exercise his *individual judgment*, the decision of the Governor-General in his discretion must be final, and the validity of anything done by him "shall not be called in question on the ground that he ought or ought not to have acted *in his discretion*, or ought or ought not to have exercised his *individual judgment*."[6]

The particular special responsibility in regard to British imports into India has been conferred upon the Governor-General in accordance with the recommendation made by the Joint Select Committee in para. 345 of its Report. The Committee also

6 Section 9(3) of the Act.

recommended that the Governor-General's Instrument of Instructions should give him full and clear guidance in regard to the scope of this special responsibility. Perhaps the Committee felt that this would to a certain extent fetter the exercise of his *individual judgment*. But Section 13(2) of the Act definitely lays down that the validity of anything done by the Governor-General " shall not be called in question on the ground that it was done otherwise than in accordance with any Instrument of Instructions issued to him." It may be argued that, under Section 14(1) of the Act, in so far as the Governor-General is by or under the Act required to *act in his discretion or to exercise his individual judgment*, he must be under the general control of, and comply with such particular directions, if any, as may from time to time be given to him by the Secretary of State. But the same section also provides that " the validity of anything done by the Governor-General shall not be called in question on the ground that it was done otherwise than in accordance with the provisions of this section." Moreover, Section 44 of the Act has empowered the Governor-General to enact laws[7] within the legislative competence of the Federal Legislature, if at any time it appears to him that, for the purpose of enabling him satisfactorily to discharge his functions in so far as he is by or under the Act required to *exercise his individual judgment*, it is essential that provision should be made by legislation. It was contemplated by the Joint Select Committee that the ' discriminatory or penal treatment ' covered by the special responsibility in question should include ' both direct discrimination (whether by means of differential tariff rates or by means of differential restrictions on imports) and indirect discrimination by means of differential treatment of various products; that the Governor-General's special responsibility could also be used to prevent the imposition of prohibitory tariffs or restrictions, if he were satisfied that such measures were proposed with the intention already described; and that in all these respects, the words would cover measures which, though not discriminatory or penal in form, would be so in fact.' It stated, however, that it would be the duty of the Governor-General to intervene in tariff policy or in the negotiation or variation of tariff agreements only if in his opinion the intention of the policy contemplated was ' to subject trade between the United Kingdom and India to restrictions conceived, not in the economic interests of India but with

[7] To be known as the Governor-General's Acts.

[8] See para. 345 of its Report.

the object of injuring the interests of the United Kingdom."[9] But it has to be borne in mind in this connexion that it will be for the Governor-General to determine *in his discretion*, what is 'discriminatory or penal treatment,' or what constitutes 'prohibitory tariffs or restrictions.' Moreover, it is he who will be required to decide *in his discretion* whether any particular tariff policy or any proposed tariff agreement is 'not in the economic interests of India but with the object of injuring the interests of the United Kingdom.'

The cumulative effect of the different provisions of the Constitution Act referred to above, considered in the light of the recommendations of the Joint Select Committee regarding the question of discrimination against British imports into India, confirms the view expressed by me elsewhere[10] that the position in regard to fiscal questions will be, on the whole, worse under the new Constitution than what it is to-day. Indeed, it is difficult, in spite of all that has been said by way of palliation by interested persons, to avoid the conclusion that the particular special responsibility conferred upon the Governor-General for the prevention of discrimination against British imports into India, constitutes a menace to what is commonly known as the Fiscal Autonomy Convention, and is a *definitely reactionary departure* from the spirit of the report of the Parliamentary Joint Select Committee on Clause 33 of the Government of India Bill, 1919, and of the reply[11] of Mr. Montagu, as Secretary of State for India, to the deputation from Lancashire on March 23rd, 1921. It certainly contrasts very unfavourably, from the Indian point of view, with such passage in the Report of the Joint Select Committee, 1919, as:—

> "Whatever be the right fiscal policy for India, for the needs of her consumers as well as for her manufacturers, it is quite clear that she should have the same liberty to consider her interests as Great Britain, Australia, New Zealand, Canada and South Africa."

Although the exact scope and effects of the Fiscal Convention have afforded much ground for discussion, and although the Convention has not succeeded in placing beyond controversy the rights and duties of the two parties (*i.e.*, the United Kingdom

9 See para. 345 of its Report.

10 Vide *The Reforms Scheme*, etc., pp. 125—146.

11 See the *Report of the Indian Fiscal Commission*, p. 4.

and India) to it, yet it is undeniable that, on the whole, the Convention has produced some moral effect on the fiscal relations between England and India and that India has enjoyed, ever since the introduction of the Montagu-Chelmsford Reforms, a certain amount of freedom in respect of her fiscal matters. To my mind, the Convention is now in danger as a result of the new Constitution.

Finally, I should like to observe that the commercial safeguards in the new Constitution would not conduce to its smooth working. They would be a fruitful source of frictions and misunderstandings between England and India. The Rt. Hon. Wedgwood Benn is, therefore, perfectly right when he says[12]:

> " The most certain source of immediate conflict is that of trade and tariff discrimination and here Great Britain, especially in the present circumstances, has a very weak case . . . . The unfortunate Governor-General, who finds himself compelled under statute and by hearty pressure of British commercial interests appealing to the same statute, to exercise his extraordinary powers to prevent " Trade Discrimination " is to be pitied. He may well have some difficulty in describing the restrictions on Fiscal and Tariff Freedom as being a step in the direction of the attainment of Dominion Status."

IV

Popular Control over Central Expenditure.

I shall now examine the nature and extent of the control which the Federal Legislature of India will be able to exercise over the expenditure of the Central Government under the new Constitution. This will enable us to ascertain how far the new Constitution is an advance upon the existing one so far as popular control over central finance is concerned.

The relevant provisions of the Government of India Act, 1935, have been based on the corresponding proposals of the White Paper[13] as elaborated by the Joint Select Committee on Indian Constitutional Reform. They lay down that the Governor-General shall in respect of every financial year cause to be laid before both Chambers of the Federal Legislature a statement of

12 See his article on " The Outlook on the Indian Reforms " in *The Political Quarterly*, July—September, 1935.

13 *White Paper, Proposals* 45—51.

the estimated receipts and expenditure of the Federation for that year. This statement will be known as the 'annual financial statement.' It must show separately

(*a*) the sums required to meet expenditure described by the Act *as expenditure charged upon the revenues of the Federation*; and

(*b*) the sums required to meet *other expenditure proposed to be made from the revenues of the Federation.*

Besides, the statement must distinguish expenditure on revenue account from other kinds of expenditure, and indicate the sums, if any, which have been included therein only because the Governor-General has directed their inclusion as being necessary for the due discharge of any of his special responsibilities.

The following heads of expenditure are to be known as *expenditure charged on the revenues of the Federation* and are not to be submitted to the vote of the Federal Legislature, although the estimates relating to all of them except those referred to in paragraph (*a*) or paragraph (*f*) may be discussed in either Chamber of the Legislature:—

"(*a*) the salary and allowances of the Governor-General and other expenditure relating to his office for which provision is required to be made by Order in Council;

(*b*) debt charges for which the Federation is liable, including interest, sinking fund charges and redemption charges, and other expenditure relating to the raising of loans and the service and redemption of debt;

(*c*) the salaries and allowances of ministers, of counsellors, of the financial adviser, of the advocate-general, of chief commissioners, and of the staff of the financial adviser;

(*d*) the salaries, allowances, and pensions payable to or in respect of judges of the Federal Court, and the pensions payable to or in respect of judges of any High Court;

(*e*) expenditure for the purpose of the discharge by the Governor-General of his functions with respect to defence and ecclesiastical affairs, his functions

with respect to external affairs in so far as he is by or under this Act (*i.e.*, the Constitution Act) required in the exercise thereof to act in his discretion, his functions in or in relation to tribal areas, and his functions in relation to the administration of any territory in the direction and control of which he is under this Act required to act in his discretion: provided that the sum so charged in any year in respect of expenditure on ecclesiastical affairs shall not exceed forty-two lakhs of rupees, exclusive of pension charges;

(*f*) the sums payable to His Majesty under this Act out of the revenues of the Federation in respect of the expenses incurred in discharging the functions of the Crown in its relations with Indian States;

(*g*) any grants for purposes connected with the administration of any areas in a Province which are for the time being excluded areas;

(*h*) any sums required to satisfy any judgment, decree or award of any court or arbitral tribunal;

(*i*) any other expenditure declared by this Act or any Act of the Federal Legislature to be so charged."

These heads of expenditure may therefore be called the non-votable heads. The Governor-General is to decide whether any proposed expenditure does or does not relate to any of these heads and his decision must be final. Other heads of expenditure at the centre will be votable. The estimates relating to them are to be submitted in the form of demands for grants to the Federal Assembly and thereafter to the Council of State, and it will be within the competence of either Chamber to assent or to refuse to assent to any demand, or to assent to any demand subject to a reduction of the amount specified therein. If, however, the Assembly has refused to assent to any demand, that demand is not to be submitted to the Council of State, unless the Governor-General so directs; and if the Assembly has assented to a demand subject to a reduction of the amount specified therein, a demand for the reduced amount only is to be submitted to the Council of State, unless the Governor-General otherwise directs. If, in either of the two cases, such a direction is given, the demand submitted to the Council of State must be for such amount, not being a greater amount than that originally demand-

ed, as may be specified in the direction. If the two Chambers differ in respect of any demand the Governor-General must summon them to meet in a joint sitting for the purpose of deliberating and voting on the demand as to which they disagree, and the decision of the majority of the members of both Chambers present and voting is to be deemed to be the decision of the two Chambers. Thus under the new Constitution the Council of State will have some voice in the granting of supplies. Under the existing constitution, however, the Council of State has no power to authorize expenditure, although it can now discuss the Central Budget. As a matter of fact, the proposals of the Central Government for the appropriation of revenue relating to the votable heads of expenditure are now submitted only to the vote of the Legislative Assembly in the form of demands for grants.

It may be noted here that, as under the existing Constitution, no demand for a grant is to be made except on the recommendation of the Governor-General.

Finally, at the conclusion of the budget proceedings, the Governor-General must authenticate by his signature a schedule specifying:

(*a*) the grants made by the Chambers in respect of the votable heads; and

(*b*) the several sums required to meet the expenditure on non-votable heads, but not exceeding, in the case of any such sum, the amount shown in the statement originally laid before the Legislature.

If, however, the Chambers have not assented to any demand for a grant or have assented subject to a reduction of the amount specified therein, the Governor-General may, if in his opinion the refusal or reduction would affect the due discharge of any of his special responsibilities, *include in the Schedule such additional amount, if any, not exceeding the amount of the rejected demand or the reduction, as the case may be, as appears to him necessary in order to enable him to discharge that responsibility.* The schedule so authenticated will be laid before both Chambers, but will not be *open to discussion or vote therein.* No expenditure from the revenues of the Federation will be deemed to be duly authorized unless it is included in the schedule so authenticated. This will not prevent, however, the submission, if necessary, of a demand for a supplementary grant later on.

It is evident from the above that, under the new Constitution, apart from the many non-votable heads of expenditure, the

Governor-General will have power to override the wishes of the Federal Legislature even in respect of a votable item of expenditure, if he considers this necessary for the due discharge of any of his special responsibilities. This power resembles the power which is vested in the Governor-General of India in Council to-day by Section 67 A (7) of the Government of India Act and under which he can set at naught the wishes of the Legislative Assembly in respect of a demand for a grant.

I have described above the legal position in regard to the granting of supplies under the new Constitution. I shall now try to ascertain the proportion of the total expenditure over which popular control is likely to be effective under it. There are, however, certain difficulties in the way of attaining a precise percentage as there are several factors which are yet indeterminable. For instance, it is not possible now to know the expenditure which the establishment of the Federal Court will entail. I shall, therefore, only attempt a rough approximation.

According to "*Statistical Abstract for British India*[14] *from 1922-23 to 1931-32,*" the total amount of expenditure in India and England charged to central revenue was about 133·4 crores of rupees. Of this amount 116·3 crores was spent on the non-votable heads of expenditure of the Central Government and 17·1 crores on its votable heads. Of the total expenditure about:—

56 crores was spent on Military Services;

2·16 crores on various Pensions and Superannuation Allowances;

·3 crore on the Ecclesiastical Department;

1·64 crores on the Political Department;

2·39 crores on the Frontier Watch and Ward; and

49 crores on the payment of Interest on various Debts (including Debts on account of State Railways, commercial and strategic).

If we add up these sums, we find that of the total expenditure charged to Revenue in 1931-32, about Rs. 111·79 crores, *i.e.*, about Rs. 112 crores, was spent on the heads of expenditure specified against them. And all these were non-votable heads of expenditure. There were as usual many other non-votable heads of expenditure in that year. Even if we ignore them we may,

[14] Vide pages 169—203.

speaking approximately, say that about 112 crores of rupees out of 133·4 crores was spent on the specific subjects mentioned above. That is to say, nearly 84 per cent of the total expenditure charged to central revenue was spent on those subjects. As these subjects will continue to be non-votable heads of expenditure also under the new Constitution, we may say that nearly 84 per cent of the central expenditure will be non-votable expenditure under it. And this is exclusive of the expenditure, not determinable now, on other non-votable heads in the Central Budget. Even if it is argued that Burma will be separated involving reduction in expenditure in certain directions, the percentage will not materially differ because the total expenditure charged to central revenue will also be correspondingly reduced after the separation. At any rate, one will be justified in maintaining, in view of some possibility of further reduction in the expenditure on Military Services in response to Indian public opinion, that under the new Constitution over 80 per cent of the central expenditure charged to revenue will be non-votable and less than 20 per cent will be votable.

I shall now consider how far popular control over even the votable portion of the central expenditure charged to revenue will be really effective.

I have previously alluded to the provision in the Constitution Act which empowers the Governor-General to restore in his discretion a grant fully or partially in the event of its rejection or reduction by the Federal Legislature if he considers this necessary for the due discharge of any of his special responsibilities. Now the Governor-General will have the following special responsibilities under the Act:—

"(*a*) the prevention of any grave menace to the peace or tranquillity of India or any part thereof;

(*b*) the safeguarding of the financial stability and credit of the Federal Government;

(*c*) the safeguarding of the legitimate interests of minorities;

(*d*) the securing to, and to the dependants of, persons who are or have been members of the public services of any rights provided or preserved for them by or under this Act[15] and the safeguarding of their legitimate interests;

15 *I.e.*, the Constitution Act.

(*e*) the securing in the sphere of executive action of the purposes which the provisions of chapter III of Part V of this Act are designed to secure in relation to legislation;

(*f*) the prevention of action which would subject goods of United Kingdom or Burmese origin imported into India to discriminatory or penal treatment;

(*g*) the protection of the rights of any Indian State and the rights and dignity of the Ruler thereof; and

(*h*) the securing that the due discharge of his functions with respect to matters with respect to which he is by or under this Act required to act in his discretion, or to exercise his individual judgment, is not prejudiced or impeded by any course of action taken with respect to any other matter."

And if and in so far as any such special responsibility is involved, the Governor-General must, in the exercise of his functions, exercise his *individual judgment* as to the action to be taken.

A careful examination of the special responsibilities will convince every one how varied, but at the same time how indefinite, they are in their nature, and how elastic they are in their scope and significance. It, therefore, appears to me that under one or other of these special-responsibilities clauses it will be quite competent for the Governor-General to restore, in case of necessity, every single grant which may have been reduced or rejected by the Federal Legislature. And I do not think that it will be an exaggeration to say that the votable heads of expenditure in the Central Budget under the new Constitution will be like the votable heads of expenditure for the Central and the Provincial Reserved subjects under the present Constitution and unlike those for the Provincial Transferred subjects to-day. It may also be noted here that under the existing Constitution *the Governor-General in Council* is empowered to restore a grant refused or reduced by the Legislative Assembly; but under the new Constitution the Governor-General alone will be competent to do it in the exercise of his individual judgment.

It will be evident from what has been stated above that real financial responsibility has not been placed on the Finance Minister of the future. Financial safeguards provided for in the new Constitution betray an unjustifiable nervousness on the part of His Majesty's Government in regard to the capacity of

Indians to manage their own finances and a general attitude of distrust towards the Federal Legislature. They are certainly incompatible with the principles of responsible government. Popular control over the finances of a country is the real test of popular government in it. But in the case of India the principle of the responsibility of the Executive to the Legislature has been subjected at the centre to so many qualifications, with a view to, among other things, ensuring "the fulfilment of the obligations incurred under the authority of the Secretary of State, and the maintenance unimpaired of its financial stability and credit,"[16] that one may be justified in holding that the advance made by the new Constitution upon the existing one is, on the financial side in the central sphere, in essence, really insignificant.

A MISLEADING ANALOGY.

Referring to the non-votable heads of expenditure both in the Provinces and at the centre the Joint Select Committee observed that they would be identical with, or analogous to, payments which would in the United Kingdom be described as Consolidated Fund charges and as such would not be voted annually by Parliament. Similar views were expressed by the Parliamentary Joint Select Committee on the Government of India Bill, 1919, in regard to the non-votable items of expenditure provided for in the Bill. But the suggested similarity is more apparent than real: there is one fundamental difference between the Consolidated Fund charges in England and the non-votable heads of expenditure in India. The former "are payable by statute out of the Consolidated Fund, and hence do not require an annual vote of Parliament, or come before the Committee of Supply."[17] The expression "by statute" should be noted. Now this statute is made by no other authority than the British Parliament itself and can be amended or repealed to-morrow by the same body if it so desires. The authority to pay Consolidated Fund charges is given, it is true, to the Government of England by the permanent Acts[18] of Parliament, *e.g.*, the Civil List Act, the National Debt and Local Loans Act, 1887, etc. But by "permanent Acts" it is not to be understood that they are unalterable by Parliament. The expression simply means that these Acts are not annually made. Parliament's authority

16 Quoted from the Prime Minister's Speech, December 1st, 1931.

17 See Lowell, *Government of England*, Vol. I, p. 284.

18 See Dicey, *Law of the Constitution*, (8th Edition), p. 313.

over the distribution of public money, however, is as unlimited as it is unquestionable. "Not a penny of revenue," says Prof. Dicey,[19] "can be legally expended except under the authority of some Act of Parliament." But the position in India will be entirely different under the new Constitution as also it is now, so far as the non-votable heads of expenditure are concerned. Certain heads of expenditure have been made non-votable not by any Act of a Legislature here, but by an Act of British Parliament; and until the Government of India Act, 1935, is itself amended in respect of the relevant sections, they will continue to remain non-votable so far as the Federal Legislature will be concerned. Hence the analogy suggested by the Joint Select Committee appears to me absolutely misleading.

19 See Dicey, *Law of the Constitution* (8th Edition), p. 313.

ON SOME ASPECTS OF THE NEW CONSTITUTION FOR INDIA

BY

S. V. AYYAR, M.A.,

Department of Economics, The University of Dacca.

The paper is an attempt to examine whether the new constitution makes the position of India in matters fiscal or economic worse than under the constitution of 1919. It further examines the implications of certain sections of the Government of India Act 1935 in so far as they affect the economic interests of India.

I

The preparations for a revision of the Government of India Act of 1919 began with the appointment of the Statutory Commission presided over by Sir John Simon, and students of Indian politics must be familiar with the many stages through which inquiries and consultations have proceeded all these long years culminating in the passing of the Government of India Act (of 1935) on the 2nd day of August 1935—an Act to make further provision for the Government of India.

The Sections of the Act which have special reference to economic and financial matters are of first-rate importance and their inclusion in the Act has not been an accident, but a result of deliberate thought and consultations on the part of His Majesty's Government and the Parliament of Great Britain. These sections define the powers of the Indian Government and Legislature in matters of legislation which are likely to affect production and trade in India and have naturally attracted the very serious attention of Indian writers.

II

In a book,[1] recently published, Mr. D. N. Banerjea claims that ' the position in regard to fiscal questions will, in reality, be on the whole worse under the proposed new constitution than what it is to-day.'

1 *The Reforms Scheme—A Critical Study*, D. N. Banerjea, Longmans, 1935, p. 146.

It is difficult to agree with this view. The Government of India Act of 1919 does not give any statutory power to the Indian Legislature to regulate the fiscal policy in India's interests. That power, if any, is based on what goes by the name 'Fiscal Convention'—on the strength of the recommendations of the Joint Select Committee of Parliament which examined the constitutional proposals in 1919. A convention requires time to settle down and it is yet too early to appreciate the real value of the convention.

The Joint Select Committee (1919) wrote[2]:

> 'A satisfactory solution of the question (fiscal) can only be guaranteed by the grant of liberty to the Government of India to devise those tariff arrangements which seem best fitted to India's needs as an integral portion of the British Empire. It cannot be guaranteed by statute. It can only be shared by an acknowledgment of a convention. Whatever be the right fiscal policy for India, it is quite clear that she should have the same liberty to consider her interests as Great Britain, Australia, New Zealand, Canada and South Africa. In the opinion of the Committee the Secretary of State should, as far as possible, avoid interference on this subject when the Government of India and its Legislature are in agreement.'

In March 1930, Sir George Rainy, the then Commerce Member, gave what may be taken as an authoritative interpretation of this fiscal convention. Speaking on behalf of the Government of India in the debate on 'The Cotton Textile Industry (Protection) Bill' Sir George said[3]:

> 'The fiscal autonomy convention means this, that while *there is always previous consultation with the Secretary of State*, the final decision as to proposals to be placed before the Legislature rests with the Government of India and with no one else. In this respect, apart from the previous consultation with the Secretary of State the position of the Government

2 *Report of the Joint Select Committee* (1919), Part III, Clause 33. His Majesty's government accepted this recommendation and it was intimated to the Government of India on 30th June, 1921. (Vide *Joint Committee on Indian Constitutional Reform*, Vol. I, Part 2, p. 451).

3 *Legislative Assembly Debates*, Vol. III, 1930, pp. 2557-8.

of India is that of a Dominion Government which decides for itself the proposals it will place before the Legislature. As soon as the Legislature arrives at a decision, one of two things happens. The Government of India and the Legislature are in agreement and in that case everything proceeds as in a Dominion. If the Government of India and the Legislature fail to agree, there is a difference. In India, under the present constitution, the actual effect is that the convention ceases to operate and the Government of India come once more under the control of the Secretary of State, for as soon as the Government of India and the Legislature fail to agree the convention is at an end.'

This official interpretation of the convention naturally invited serious criticism from non-official members of the Legislative Assembly, but it is difficult to see how the Government of India with their statutory responsibilities could have taken up any other position.

Mr. J. K. Munshi remarked in the course of the debate on the Cotton Textile Industry (Protection) Bill, that 'India does not enjoy fiscal autonomy in any shape or form, and that it was no use deceiving the country or to cloud the real issue before the House.'[4] Mr. K. C. Neogy maintained that 'this convention of fiscal autonomy is a sham and a fraud.'[5]

A weighty opinion was that of President Patel. He said[6]:

'Unless the Government of India are prepared to assimilate themselves to the position of Ministers, and act as such, in this matter of fiscal autonomy, this *fiscal autonomy has no meaning under the present constitution.*' But President Patel was equally clear that 'real fiscal autonomy was possible even under the existing constitution if the decision in fiscal matters is left to the vote of non-official members, and such decision is regarded as binding on the executive."[7]

[4] *Legislative Assembly Debates*, Vol. III, 1930, p. 2520.

[5] *Legislative Assembly Debates*, Vol. III, 1930, p. 2457.

[6] *Legislative Assembly Debates*, Vol. III, 1930, p. 2457.

[7] *Legislative Assembly Debates*, Vol. III, 1930, p. 2676.

The position of the executive government of India cannot be assimilated to the position of Ministers either in law or in fact under the present constitution without seriously interfering with the statutory or other powers of the Secretary of State, and it is difficult to see where fiscal autonomy for India comes in when there is always previous consultation, and the government is responsible in law and fact to the Secretary of State. We have no means of estimating the real degree of interference or non-interference of the Secretary of State in these preliminary consultations, and it cannot be seriously contended that the Government of India as at present constituted ever make up their mind in open violation of the advice tendered to them by the Secretary of State in these preliminary stages of consultation. Sir George must have had a keen sense of humour when he remarked that 'as soon as the Government of India and the Legislature failed to agree the Government of India *once more* come under the *control* of the Secretary of State. One wonders whether at the stage of preliminary consultations the Government of India were not under the control of the Secretary of State. If the Government of India are incapable of making up their mind in a way different from the views of the Secretary of State, there is no autonomy at all whether to the Government of India, or to the Legislature.

If this be the position in the law or the practice of the constitution of 1919, in what ways have any clauses of the new Constitution Act interfered with or attenuated a power that did not exist. The relevant Sections 111—118 of the Government of India Act of 1935 restrict by Statute the powers of the Indian Legislature on some of these matters, but the Joint Committee which examined the draft Bill for the Government of India Act (1934) write[8]:

> 'We wish to make it clear that *we contemplate no measure which would interfere with the position attained by India* (?) *as an integral portion of the British Empire through the fiscal convention.* Fears have been expressed lest the exercise by the Indian Legislature of the powers contemplated by the convention might result in the imposition of penal tariffs or penally restrictive regulations on British goods. The answer to these fears is that *the convention could never, in fact, have been applied in aid*

8 *Joint Committee on Indian Constitutional Reform*, Vol. I, Part I, Report, p. 205.

> *of such a policy.* If this be so, it would clearly be of advantage to allay the fears by a declaration through and under the Constitution Act of the principles governing the relations between the two countries.'

The Earl of Derby and Sir Joseph Nall (both members of the Select Committee) write[9]:

> ' In fact we shall be making *no change* in the existing fiscal relations between India and this country if we seek to make plain on the face of the statute that it is not a legitimate or permissible use of the fiscal convention to discriminate against British trade as such. We think it essential that on this matter there should be no ground for misapprehension in future.'

III

The question of commercial discrimination is closely allied to the question of fiscal policy. Mr. Banerjea in *The Reforms Scheme—a Critical Study*, contends *inter alia* that ' in the matter of commercial discrimination what is *intra vires* of the Indian Legislature now will be *ultra vires* of the Federal Legislature in future if the (proposed) commercial safeguards are incorporated—as they have been—in the Constitution Act.'[10]

We agree that Sections 111—116 of the Government of India Act of 1935 do make it *ultra vires* of the Indian Constitution to discriminate against British trade, British shipping interests, or British immigration into India. But is it seriously maintained that the Government of India Act of 1919 gave powers to the Government of India or the Legislature, powers to restrict British commercial interests in India or with India? The constitution of 1919 could never, in fact, have been used in aid of such a policy. According to the Government of India Act 1919, ' The Indian Legislature has not power to make any law affecting the authority of Parliament, or any part of the unwritten laws or constitution of the United Kingdom whereon may depend in any degree the allegiance of any person to the Crown of the United Kingdom or affecting the sovereignty or dominion of the Crown over any part of British India.'[11]

9 *Joint Committee on Indian Constitutional Reform*, Vol. I, Part II, proceedings, p. 449.

10 *The Reforms Scheme—A Critical Study*, Longmans, 1935, p. 66.

11 *Government of India Act*, 1919 (1924 Edition), Sec. 65 (2).

Mr. Banerjea is entitled to hold, as he does, that 'self-government is a myth, if India is not to have the power to devise and follow a national economic policy, including the right, if its interests required it, of making economic discrimination against non-national interests.'[12] But he is not entitled to hold in the absence of duly qualified judicial opinion or decision that the power of penal discrimination against Great Britain was inherent in the Legislature as contemplated by the British Parliament or by the Government of India Act 1919.

So long as the law makes it clear that the final authority on the validity of legislation is the Governor-General acting under the control or superintendence of the Secretary of State the question whether it is *intra vires* of the constitution to make discriminative laws penalising British interests in India is of no importance, or only of hypothetical value, as in fact, such a possibility cannot arise, and it could never have been the intention of the framers of the Act to vest in the Indian Legislature powers —either expressly or even by implication—to make laws penalising British trade or other interests in India.

There is no doubt that apart from their legal implications, Sections 111—116 of the Act would make the position of Ministers in the Provinces as well as in the Federation extremely difficult. India cannot subsidise purely Indian industries with Indian personnel or with Indian capital unless such assistance is also made available to non-nationals—British companies trading with or in India—and any serious attempt to stimulate Indian shipping would be impossible.

IV

References made to the question of trade reciprocity between Great Britain and India both in the report of the Joint Select Committee and the Government of India Act 1935 appear to be a sort of diplomatic camouflage to hide in legal or constitutional phraseology what must on close examination be realised as extremely unsound principle and unfair practice taking into consideration the present relative strength of the two countries in the economic sphere. Secondly, a free, voluntary, reciprocal agreement is difficult to negotiate when one of the parties to the negotiation is a dominant partner who already has a statutory whip hand in all that he may care to have.

12 *The Reforms Scheme—A Critical Study*, Longmans, p. 66.

Section 118 reads:

> 'If, after the establishment of the Federation a convention is made between His Majesty's government in the United Kingdom, and the Federal Government whereby similarity of treatment is assured in the United Kingdom to British subject domiciled in British India, and to companies incorporated by or under the laws of British India, and in British India to British subjects domiciled in the United Kingdom, and to companies incorporated in the United Kingdom respectively, His Majesty may, if he is satisfied that all necessary legislation has been enacted both in the United Kingdom and in India for the purpose of giving effect to this convention by order in Council, declare that the purposes of these sections 111—117 are sufficiently fulfilled and the operation of those sections shall to that extent be suspended.'

The Joint Select Committee's remarks on this question of reciprocity are interesting. They say[13]:

> 'It may be said that *the practical result will be exactly the same*, and *this no doubt is true*, but the merit of the proposal, as we see it, is that it will enable the Indian Legislature and the Indian Government, to substitute a voluntary agreement for a statutory enactment, and would give to the arrangements a conventional basis. There is no doubt that the Joint Committee, while not admitting that commercial discrimination against the United Kingdom was *intra vires* of the Constitution Act of 1919, definitely recommended a statutory prohibition of specified forms of discrimination, the effect of which 'would lay open to challenge in the courts as being *ultra vires* any legislative enactment which is inconsistent with these prohibitions—even if the Governor-General or the Governor has assented to it.'[14]

If real reciprocity is desired the obvious course would be to allow India autonomy to make such laws as she may desire to

13 *Joint Committee on Indian Constitutional Reform*, Vol. I, Part I, Report, p. 212.

14 *Joint Committee on Indian Constitutional Reform*, Vol. I, Part I, Report, p. 210.

restrict, if necessary, British subjects of His Majesty in India in the enjoyment of any privileges or immunities which may be enjoyed by the nationals in India, subject to such or similar restrictions which may be imposed on Indian subjects of His Majesty in the United Kingdom. One looks in vain in the Constitution Act for any indication of any statutory limitation in the power of His Majesty's Government to pass restrictive legislation on His Majesty's Indian subjects in the United Kingdom. If we must trust the United Kingdom we have an equal right to be trusted to use our powers properly and with due regard to Indian interests.

V

Financial Provisions in the Government of India Act, 1935.

All Sections of the Act from 33 to 38 which explain the procedure in financial matters in the legislature really vest power in the hands of the Governor-General, and Section 34(2) which confers on the Council of State powers almost equal to those of the Legislative Assembly indicates a reactionary attitude in Budgetary methods—judged by any canons of representative or responsible government in progressive countries.

One great advance in the financial relationship between the Central Government and the Provinces is to be found in Sections 138 and 140. Section 138 provides for the distribution of taxes from income, to the Provinces and the Federated States under certain conditions, and Section 140 provides that if the Federal Legislature so provides, collections from salt duties, excise duties, and export duties might be assigned to the provinces, and Bengal has reason to be satisfied with the statutory safeguard that one-half of the export duty on jute shall be assigned to the provinces in which jute is grown, in proportion to the respective amounts of jute grown therein.

Section 14, Part II, provides that ' in so far as the Governor-General is by or under this Act required to act in his discretion or to exercise his individual judgment, he shall be under the general control of, and comply with such particular directions, if any, as may from time to time be given to him by, the Secretary of State,' and Section 314(1) Part XIII goes further and during the transition period provides that ' the Governor-General-in-Council and the Governor-General, both as respects matters with respect to which he is required under this Act to act in his discretion and *as respects other matters*, shall be under the general

control of, and comply with such particular directions, if any, as may from time to time be given by, the Secretary of State.' All powers which are under the Constitution Act vested in the Governor-General are really powers exercised by the Secretary of State, and *there is not even a constitutional pretence that the Governor-General can have individual discretion* or *independent judgment.* The voice is the voice of the Governor-General, but the mind that directs, and the hands that control India's destiny are those of the Secretary of State! It will, therefore, be clear that control over the Reserve Bank, the Railway authority, and control over many other questions of civil or military administration which are or may be of vital economic interest to India will be controlled from beyond the seas by a Hidden Hand.

Where is the transfer of real power over the finances of the country even to the executive Government of India as apart from the Legislature?

Section 249 of the Government of India Act 1935 reads:—

> 'If by reason of anything done under this Act the conditions of service of any person appointed to a civil service or a civil post by the Secretary of State have been adversely affected, or if for any other reason, it appears to the Secretary of State that compensation ought to be granted to or in respect of any such person, he or his representatives shall be entitled to receive from the revenues of the Federation or the Province such compensation as the Secretary of State may consider just and equitable.'

This is a remarkable position. One man—an executive officer—is to be the judge on what is or must be a highly complex constitutional question. It is difficult to understand why every change in political progress must be followed by compensations, and it is more difficult to appreciate why even such claims as may arise should not be referred to the highest judicial Tribunal of the land or at least to a special Tribunal of experts experienced in Constitutional Law and administrative practice—free from political pressure or party influences. The Joint Select Committee were very apologetic about this power in the hands of the Secretary of State. They wrote:[15]

15 *Joint Committee on Indian Constitutional Reform*, Vol. I, Part I, Report, p. 177.

'This is, no doubt, a very wide and general power; but it is impossible to foresee and provide in a statute against all contingencies that may arise in the administration of a great service and *we do not dissent from the proposal.* The Secretary of State may be trusted to preserve a reasonable balance between the interests of the services on the one hand and those of Indian revenues on the other.

Could India not be trusted to preserve a reasonable balance between the interests of Indian revenues on the one hand and the interests of a great service(?) on the other?

VI

The bringing into force of the new constitution—such as it is—cannot but add significantly to the expenditure of the Federation and the Provinces. The Joint Select Committee estimated that[16] 'the additional expenditure required by reason of the constitutional changes would amount to $\frac{3}{4}$ crore per annum attributable to Provincial autonomy, and another $\frac{3}{4}$ crore attributable to the establishment of the Federation.' This is too modest an estimate. Additional provinces have since been saddled with second chambers. 'There are,' say the Committee, 'other factors that affect the financial position. The revenues of India will suffer a loss estimated to be possibly as much as three crores less the yield of any revenue duties on imports from Burma which may be introduced from the date of separation.' The indirect loss to India that may result from any Act of the Burma Legislature restricting the immigration of Indian labour into Burma must also be taken into consideration. The Indian States Enquiry (Finance) Committee 1932 estimated[17] that their recommendations would 'impose on Federal revenues an ultimate gross burden of Rs. 1 crore per annum additional to that borne by the central government to-day.'

India requires at the present time a new orientation in matters of public policy towards the economic betterment of her citizens, to diminish unemployment, to stimulate production and trade, to develop schemes of social insurance even as many other nations are doing. We want a government of India, not only able and willing but anxious to go forward and plan out a future

16 *Joint Select Committee on Indian Constitutional Reform*, 1934, Vol. I, Part I, Report, p. 170.

17 *The Indian States Enquiry (Finance) Committee*, 1932, Report, p. 164.

programme—comprehensive and practical. But increasing expenditure in duplicating unnecessary and mischievous political machinery without any real power to regulate freely income or expenditure to the advantage of India is an avoidable luxury.

Section 315 which provides for the raising of sterling loans by the Secretary of State on behalf of the Governor-General in Council says:

> 'No deductions in respect of taxes imposed by or under any existing Indian Law or any law of the Indian, the Federal, or Provincial Legislature, shall be made, either before or after the establishment of the Federation, from any payment of interest or principal in respect of any loans contracted under this section.'

It appears that even conversion schemes in the matter of sterling loans are ruled out. The Indian legislature cannot, under Section 316, 'impose any limits on the power of the Governor-General to borrow money—or mortgage the future resources of India.'

VII

It is difficult to find much in the Government of India Act 1935 that transfers any substance of power—financial or fiscal—to the legislature or even to a responsible executive government either at the centre or in the provinces, and the Act does not encourage the hope that in any near future India can develop India's resources for India under national control. India, poor as it is, bled white for constitutional experiments, must again look only to additional taxation for expenditure on the social services which are so urgently necessary in India to-day.

We can close this survey by a parody of Churchill's great speech in London on January 29, 1935.

> 'The India Act is a monstrous monument of shams. The plan strikes at the destiny of the Empire which would not be settled by mere statutes, clever wire-pulling, or adroit manœuvre, but by the spirit of the Indian nation, by the march of world events, and by the faithful discharge of their duty, by men and women throughout India.'

We cannot improve on the criticism of the Bill—now the Government of India Act 1935—made by Mr. Churchill, that 'it is a gigantic quilt of jumbled crotchet work, there is no theme, no pattern, no agreement, no conviction, no simplicity, no courage in it.'

THE FINANCIAL PROSPECTS OF THE INDIAN FEDERATION—SOME GENERAL CONSIDERATIONS

BY

M. K. MUNISWAMI.

Students of Indian financial practice would doubtless be struck by some of the profound changes that have taken place in the attitude of the authorities towards the financial powers to be vested in the units of the Federation. Under the Government of India Act (1935) the Federal Government is not altogether to surrender the entire income-tax proceeds to the provinces for some time to come. Besides, the Federal Government is vested with the power of levying surcharges on the income-tax for its own purposes. We may generally say that whereas in the pre-Federation régime contributions from provinces to the centre were a common feature, under the proposed scheme of financial settlement deficit provinces such as the N. W. Frontier, Orissa and Sind are to be subsidised by subventions from the centre. Apart from these grants in favour of deficit provinces the Act of 1935 has vested in the provincial units residuary powers of taxation, subject of course to the usual condition that the levy of such taxes does not prejudice any federal source of revenue. The fact that no single source of revenue is equally productive in all the provincial units rightly led Sir Walter Layton to suggest a comprehensive scheme of grants-in-aid in their favour, as otherwise the unequal resources of the provincial units will be perpetuated. Paradoxical as it might appear Sir Walter Layton put forward a strong federal fund as the guarantee for provincial financial adequacy. While for the present provincial units are called upon to part with a portion of income-tax proceeds for federal expenditure it would appear that the state units have been freed from any serious liability for federal expenditure. The provisions concerning the States seem to err on the side of generosity. The J. P. C. recognise that it is difficult to reconcile the Treaties of the States with any practical scheme of Federal finance. They piously hope that the land customs duties of the States will not operate as a barrier to free trade within the federation. The only plea made regarding maritime States by the J. P. C. is that there should be uniformity between the rates

of duty levied at British Indian ports and State ports. As it is, only in the case of Bhavnagar which conforms to British Indian laws and regulations and the ports of Travancore, governed by the interportal convention, is there such uniformity. The latest report of the Bombay Port Trust testifies to the havoc wrought to Bombay by the competition of Kathiawar ports with their special facilities for landing and warehousing goods. The Davidson Committee recommended for consideration a compromise arrangement under which the maritime States would be permitted to retain the duties on goods imported through their own ports for consumption by their own subjects. It is doubtful, however, if maritime States would be agreeable to such a course, as its effect would be to curtail their treaty rights. (*Vide* Davidson Committee Report.) In their anxiety to strengthen the Federation, the J. P. C. stated that where any State takes its stand on treaty rights, entrance into the Federation ought to be denied to them. One wonders if the States are so anxious to enter the Federation under such conditions at all. The Act of 1935 is therefore forced to recognise such immunities and privileges as inevitable in the Federation.

The justification for this kind of settlement that has sometimes been urged is, that for a long time past, the British Indian Government has been enjoying the entire proceeds of Customs, Salt (with few exceptions) and Opium revenue, and the profits realised from the operations of the Posts, Telegraphs and the Currency departments of the Government of India. Some States have also urged that in the past they were not allowed to develop themselves economically in the interests of British India.

The abolition of subsidies or tributes from the States would impose a new burden to the extent of one crore of rupees on the Indian Federation. The Act of 1935 has however laid down that no remission of subsidies shall be granted by the Federation until the provinces have begun to receive moneys relating to taxes on income, and in fixing the amount of any payment, in respect of ceded territories, account shall be taken of the value of any such privilege or immunity enjoyed by the State unit of the Federation.

Ultimately the position of some of the States would be similar to the position of 'Deficit Provinces' to be subsidised by the Federation. We may derive such consolation as we may from the observations of the Davidson Committee that "By the very fact of their entry into the Federation, the States make a contribution which is not to be weighed in golden scales; if after every adjustment has been made there is still a substantial balance

against British India it ought not to matter." Thus the States bear only the burden of indirect taxes and of a military force for the defence of India costing them a paltry amount (two crores and 38 lakhs). While the States may be permitted their inland customs duties or other privileges, there is no reason why they should not pledge their revenues as a security for federal loans especially in view of the fact that in the new Federal legislature they will have enough pull. (In fact some publicists fear they may exercise disproportionate influence.) The introduction of an income-tax into all the State units may be suggested, but numerous economic and administrative obstacles in the way, have evidently led the Act of 1935 not to adopt such a course. Systems of income and corporation taxes would adversely affect the development of such industries as may be started in some of the States; further the position of inland States is already one of considerable disadvantage, for the fiscal devices open to fully sovereign states, such as the levy of customs duties, profits from coinage, would after some time be denied to them under the Federation. If an income-tax is thought of at all by a State administration, it would be anxious to retain the entire proceeds of such a tax herself.

The financial settlement under the Act of 1935 is thus wanting in uniformity not only between British India and the States as such but between one State and another. This may perhaps be traced to the peculiar circumstances under which each State came to recognise the paramountcy of the Crown. The present scheme may be described as inevitable, but we ought to be aware of the obvious fact that according to the theory of Federal finance in a Federal constitution there is the equalisation of burdens and benefits. If anything, burdens as well as benefits are unequal under the proposed Federation, and to a large extent, the scheme with its payments and cross-payments, reminds one (as Mr. Adarkar has pointed out) of a famous humorist's description of Paris as a city in which the people eked out a precarious livelihood by tipping each other.

It is perhaps in the fitness of things that an anomalous Federation like the Indian should have an anomalous and unequal financial settlement. The framers of the Act of 1935 have not followed that will-o'-the-wisp, adequacy of revenues of both the units and the centre, that the Meston Committee pursued. In that respect the present settlement is essentially realistic. But as already pointed out it is weighted in favour of the units of the Federation, more particularly the State units. The general tendency in most federations, during the post-War and post-

depression periods is towards centralisation. The Indian Federation proposed now seeks to disperse and localise financial power largely. This attempt seems to the writer to be rather inopportune; the financial prospects of the Federation under the existing settlement at any rate in the immediate future seems to be far from rosy.

It is strange that the Secretary of State for India should have told the House of Commons on February 22nd, 1933, that in his opinion the Federal Government proposed to be established in India would not cost substantially more than the existing Government of India. Sir A. G. Cardew (*Vide Contemporary*, November 1933), however, after carefully going through the financial memorandum submitted by Sir Malcolm Hailey on the prospects of the Federation, has emphasised " that at least some 22 million pounds sterling of additional revenue, over that estimated to be received in 1933-34, would be required to carry out the scheme of constitutional change outlined in the White Paper." In his memorandum to the J. P. C. Sir Malcolm Hailey has stressed that " the military authorities regarded the provisions of the Indian Budget as barely satisfying the requirements of the army in India and that no substantial reduction could be contemplated in the immediate future." Over and above the items mentioned in Sir Malcolm Hailey's memorandum which aggregate to a new expenditure of 6 million pounds, there are other disquieting factors whose financial significance must be assessed, at least by Sir Otto Niemeyer. The receipts from Customs (which have been declining since 1929) will be a stagnant or probably diminishing source of revenue, with the acceptance of Imperial Preference as a fiscal principle for India. The cessation of the contribution of Railways (*Vide* latest Report of the Public Accounts Committee of the Indian Legislative Assembly) to the general revenues seems to be more or less a permanent factor in view of the competition of road services and of the increasing burden of Railway expenditure. Indian imports from Burma are not easily taxed for fear of retaliatory action against Indian exports to Burma. Further the present unsettled economic outlook has in some parts of the country led to vigorous demands for tax reduction, and also necessitated concerted State action by way of beneficial expenditure (such as rural development schemes). Moreover a time would come when the Federation would have to part with even that portion of the income-tax proceeds now to be retained by it in favour of the provincial units. Besides giving an undue weight in Indian counsels to the States the proposed settlement would have only

saddled the Federal Government with increased expenditure to be financed by declining receipts of revenue. In these circumstances the reluctance of many States to enter the Federation passes our understanding. In fact from the economic standpoint they stand to gain immensely from their entry into the Federation. The anxiety of the British Parliament to persuade the States to enter the Federation, it is now clear, is due to extra-financial consideration—the consideration that they would constitute an effective safeguard to the *status quo*.

The question may however be raised whether the merits of a Federal Government of this type, great as they are, outweigh the burdens now sought to be thrown on the British Indian taxpayer. It is obvious that the levy of protective duties sometimes in the interests of State industries in the State units of the Federation, would constitute a burden on the Indian consumer or limit any increase of revenue from Customs duties. As the new Indian constitution is going to restrict fiscal freedom by safeguards relating to commercial discrimination and as there is also the possibility that new trade treaties may be negotiated with foreign countries on the lines of the Indo-Japanese pact, fixing for a long period the quantity of certain commodities imported into India, it is highly doubtful if the Federation can anticipate any increase in Customs revenue at all. The prospects of any striking increase in the export trade of India are far from bright; there may be a diversion rather than a substantial increase in such exports to other countries of the world in the near future.

It is unlikely that federation as an ideal will be thrown over, but it is necessary to urge that prior to the actual inauguration of the constitution a comprehensive enquiry has to be set on foot to review the proposed financial basis of the Federation. It is doubtful if the scope of Sir Otto's enquiry is so comprehensive at all. It is only after an enquiry of the type suggested above, and of an enquiry into the ultimate payments and cross-payments to be made between India and Burma (a partial enquiry with a tentative conclusion is now embodied in the Howard-Nixon memorandum on the financial consequences of the separation of Burma according to which more than three crores of rupees would have to be borne annually as loss accruing from the separation of Burma by the Indian Federation), that we shall know how far the States would be willing to enter the Federation. If within the scope of Sir Otto's enquiry the States are not included at all it is not likely that they would be forced to bear their legitimate obligations at all. It looks as if the proposed Federation might be split on the rock of finance and

the three alternatives before Sir Otto immediately would be (1) Revision of the settlement between the Federation and its units under the Act of 1935; (2) The levy of additional taxes; (3) Reduction in expenditure. If (2) and (3) are not considered as being within the bounds of possibility, the only ' imperfect remedy ' that Sir Otto could suggest is No. 1.

Note A.—Sir Malcolm Hailey has estimated the increased annual outlay of the Central Government on the Federal court and the legislature at from ·38 million pounds to ·56 million pounds; the currency receipts of the Government of India would be reduced by more than ·75 million pounds annually in view of the establishment of the Reserve Bank; after 1935 the receipts from opium (·47 million pounds a year) would entirely disappear; the separation of Burma would account for a loss of nearly 2 million pounds sterling to Indian exchequer; the grants to the ' deficit provinces ' North-West Frontier, Orissa and Sind would saddle the Indian exchequer with an expenditure of nearly 1 million pounds sterling.

Note B.—

EXTENT OF IMMUNITY OF STATES FROM CONTRIBUTION TO CENTRAL CUSTOMS REVENUE, 1930-31.

	Rs. Lakhs.
Bhavnagar	51·0
Nawnagar	44·00
Cochin	12·57
Travancore	12·57
Cutch	8·00
Porbunder	5·06
Junagadh	13·71
Kashmir	25·00

The Davidson Committee estimate the total immunities of States from contribution to customs revenue at 182·42 lakhs (1930-31 figures.)

APPENDIX

It would appear that the total expenditure for which no provision is made in the Federal Budget forecast prepared by the Percy Committee. would amount to—

Sind	80½	lakhs
Orissa	80	,,
New Elections and Legislatures	35	,,
Financial claims of the States	80	,,
(*Vide* the note below.)		
TOTAL	200½	,,

There is the additional expenditure, involved in the establishment of a Federal Court.

Sir A. Machalters, in his lecture before the East India Association (1892) said that the total bill, which the States were prepared to present to British India would be 16 crores of rupees per year. This may however be treated as out of date, with federation envisaged as the goal. The *ultimate* burden on Federal Revenues, is estimated at 1 crore per annum. The *immediate* burden however, is not likely to exceed 50 lakhs, made up as follows:

(1) Rs. 12 lakhs, on account of remissions of the tributes of Individual States.

(2) Rs. 37 lakhs as Compensatory Credits for returns from the territories ceded by the following states:—

	Rs.	
Baroda	22·98	lakhs
Gwalior	11·78	,,
Indore	1·11	,,
Sangli	1·10	,,

(It may be noticed, that this is a most cautious estimate, made by "British Indian," in his book, *Finance and Commerce in Federal India*.)

THE STRUCTURE OF INDUSTRY IN INDIA

BY

PROF. P. S. LOKANATHAN, M.A., D.SC. (ECON.), LONDON.

The object of this paper is (*a*) to examine the influences that have affected the structure of industry in India, (*b*) to find out the correlation, if any, between structure and efficiency, and (*c*) to raise some issues for the solution of which further data would seem to be required than are actually available.

I

SMALL INDUSTRY.

Industry in India, as in other countries, is carried on in units of varying size. Except for organised industries, we have no means of measuring the size of establishments in various industries in urban and rural areas. The fact that whilst 37 millions are supported by industry of all kinds, the number of workers employed in establishments each employing more than 20 are only less than $1\frac{1}{2}$ millions shows that the smallest units form a large percentage of the total number. In spite of the widely held belief in the superiority and efficiency of large-scale operation, the actual facts of economic organisation all over the world reveal a serious discrepancy between theory and fact. Part of the explanation for this discrepancy is that very small business units are merely survivals of an organisation which had long since ceased to be efficient and persist only by virtue of certain inherent defects in transport, marketing and intelligence. In some cases it may be that owing to the nature of the materials, or product which may not admit of long transport the individual units have necessarily to be small. But these facts do not explain everything. The fact is that the influences exerted on the scale of production in different industries are not all technical. Only if that were so, it could be expected that all the units in an industry must be of a certain size and smaller concerns must necessarily be uneconomic. The organisation existing in each

country is the result of a large number of influences operating both on the side of production and of consumption some of which are psychological and even irrational.

In India considering the vast size of the country with its enormous number of villages only loosely connected with one another and with exchange limited to a small area it is not surprising that industry is carried on in small units, often in the houses of the workers. Handicrafts, rather than workshops, are the general feature of Indian economic life. Where industrial employments are looked upon as a source of supplementary income, a necessary subsidy to the agricultural industry which by itself is unable to maintain the workers at subsistence level, the existence of handicrafts and domestic industries is not merely easily explained, but their development should be the primary concern of the State. In the cost of production of products turned out in these rural industries, not only need no allowances for profits be included, but wages cost would be less than in ordinary industries because the workers would be content with less than full normal wages. The prosperity of the country therefore depends to a large extent upon the extent to which a sound scheme of rural industries is organised and developed. As in Japan where despite the growth of a large number of modern, up-to-date and large factories, the small village industries occupy still an important position both in the internal economy of the country and in export trade, so in India, it should be possible to develop village industries with the aid of modern appliances and cheap electric power.

II

Structure of Major Industries.

When we consider the structure of the main organised industries in India, we find that, apart from technical factors several influences have affected it, particularly those relating to finance, marketing, and management and also the principle of expansion adopted by some industrial leaders. A few illustrations will suffice here. A main difference between the structure of the Bombay section of the cotton industry and that in Ahmedabad is the result of the different financial capabilities in each centre. The Bombay mills were much larger than elsewhere because until recently there was no difficulty in getting as much capital as they required from the public. Conditions in Ahmedabad were different and the methods of capitalising and floating mills were greatly influenced either by the difficulties of

getting the public to subscribe for the shares in the initial stages or by the unwillingness of the promoters to let the shares be widely distributed.

The structure of the jute industry has been very much influenced by the ideas of some of the captains of industry like the late Sir David Yule. Many of the jute mills have been organised on the scale of 500—750 looms because whilst they were efficient technical units, they were according to Sir D. Yule, of a reasonable size to ensure detailed control and effective co-ordination. What was more, the results of one mill could be used as a check on the results of another, and the management in each mill was given every incentive to show the best result. This has resulted in a large number of separate units of moderate size rather than in the expansion of a few mills into large units.

Marketing influences have tended to increase the size of business firms in several industries. In the cotton industry only those mills have mostly adopted the system of direct selling which are " the largest, the most efficient and the most successful." Direct selling by the mills, implying as it does a large investment of capital, cannot be undertaken except by bigger units. One of the reasons for the comparatively larger units in Bombay is that they were organised for export trade and therefore were established on a fairly large scale. Since the beginning of the century, the Bombay mills are catering for the internal markets of the country. But marketing influences will still continue to exert a powerful influence on the structure of the mill industry. Owing to the vast size of the country, transport costs are an influence tending towards a more even distribution of the cotton mill industry. But if Bombay is to hold its own, it will have to counteract its disadvantages in transport costs by securing the economies of large-scale organisation and of concentration on special kinds of finer goods. At the present time however the majority of the units, not merely in the cotton industry but equally in other industries, are not at the optimum marketing level. But that is not to imply that they must expand and reach that level. For the risks of growth arising from the diseconomies of faulty management and lack of coordination are real and must be guarded against.

III

SIZE AND EFFICIENCY.

In examining the relation between size and efficiency we are struck by the complex and varying relation between size and the

several component items of costs in business units within an industry and in units in different industries. There does not seem to be any simple law governing this relationship. Whilst it is true that very small units are unable to produce at the cheapest costs, it cannot be said that the larger the units the less will be the average costs of production. For after a certain size is reached, a business unit ceases to realise the economies of large-scale production and organisation, on account of certain counteracting influences. It will however be instructive to examine very briefly the nature of the costs that are directly governed by side and those that are not so influenced. Taking the cotton industry, between a moderate sized unit and a large unit, the latter seems to have an advantage in power and overhead expenses and marketing. In the coal mining industry it is interesting to notice that more than even the size, the quality of the coal raised and the level at which it is raised are the factors determining efficiency. But small collieries are at a decided disadvantage in regard to power, technical methods of production, and costs of maintenance and supervision. The paper industry exhibits the differences between a small unit and a large unit in respect of power and coal consumption, supervision, overhead charges and depreciation and management. It has been found that a one-machine paper mill is uneconomical and inefficient, and although two-machine mills are certainly of good size, the available evidence is insufficient to say what the 'optimum' unit must be.

A serious limit to the increase in the size of business units is the factor of management. The Tariff Board have gone so far as to suggest that "in the circumstances of the cotton textile industry in India better results are likely to be obtained by economies resulting from close personal attention than from large-scale production or management."

IV

Influence of the Managing Agency System on the Structure of Industry.

The structure of Indian industrial organisation has been greatly influenced by the operation of the managing agency system, whose significant feature comes out not so much when a managing agency firm manages only one industrial unit as when a number of concerns either in the same or allied industries are controlled and managed by one and the same managing agency firm. Then arise certain important economies of co-ordination

and integration which accrue to every unit under one and the same management.

When a firm like Andrew Yule & Co. manages 10 jute mills, 18 tea companies, 14 coal companies, 3 transport companies and a number of other units in other different industries, the fact of common management has led to a type of industrial organisation peculiar to the system and to a new kind of efficiency affecting all the several concerns. Every leading managing agency firm has a central office organisation which is divided into several departments organised first on the lines of industry, *e.g.*, jute department, coal department, tea department, railway department, etc., and secondly on the basis of function, of purchase, sale, finance, etc. This has resulted in the supply of an efficient buying organisation and of a powerful selling organisation for all the mills under common management. The economies of bulk purchase and the efficiency of a central sales organisation not possible for separate management are secured under the managing agency system.

These economies are not confined to purchase and sales. In respect of supervision and administrative control, similar economies are realised. While it would be too expensive for a single tea garden to maintain a good inspectorate staff to supervise quality and offer technical advice because of its expensiveness, a group of gardens under one managing agency firm can afford to employ an efficient inspection staff whose expenses may be shared out in common. Again while a small or even a medium sized coal company could not employ a first-class engineer, it is possible to employ an expert engineer for all the collieries under one managing agency firm while keeping a sub-engineer at each of the coal mines. All this results in a considerable saving of money, better service and greater efficiency all round.

Not less important has been the economy in the cost of administration and control. The partners of the leading agency firms are men of great ability whose services cannot be obtained by any one industrial concern operating alone. But under the system, it is possible to have the advantages of the highest administrative talents at lower cost because the expenses can be shared out by a large number of concerns.

In the matter of finance again, the smaller industrial concerns are at no disadvantage compared to the larger ones for the credit of the managing agents enable the smaller ones to get financial facilities at no higher cost. Again, Indian businesses have been better able to overcome the initial difficulties of every

new enterprise and to withstand depression under the managing agency system on account of the coordination in financing secured by managing agents, as recent events have shown both in the tea and cotton industries in India.

The managing agency system of industrial management represents a unique type of industrial organisation. Without any formal combination or amalgamation and without losing their independent legal and functional existence, the several units under one managing agency firm are enabled to realise the economies of large-scale organisation, if not of large-scale production. The disadvantages of the small size of the units are counteracted by the administrative integration secured under the managing agency system. There does not seem to be any parallel to this kind of organisation in other parts of the world, and the only organisation outside India resembling the managing agency system in some respects is the Group System of administration found in the gold mining industry of the Witwatersrand, South Africa, described in the *Economic Journal*, December 1929. But even that system does not exhibit a feature peculiar to the industrial structure of India. In so far as a jute mill, a coal company, a tea garden and a steamship company were all under common management, the products of a concern in one industry are able to find a market in the business of others. Partial self-sufficiency and a market common to the products of the allied companies are possible under the managing agency system as it obtains in India.

Another consequence of the managing agency system has been the desire to secure similar financial results in concerns of the same industry under one and the same managing agents. This however has not always been possible as differences in location, in size and other factors between one jute mill and another or between one tea garden and another are sometimes so striking that financial results also are bound to be different.

Although the managing agency system has thus influenced the structure of industry in directions outlined above, it has also been responsible in certain cases for a weakening of industrial units and for an arrested development of industry. This is due to three or four factors. The conflict of interest between the interests of the shareholders of individual units and the managing agents, the widespread system of commissions and other payments, the inter-locking of funds among the units of one management and the possibility of the sound as well as unsound concerns being adversely affected when the managing agency

firm becomes weak financially have all tended to create distrust amongst the investing public.

V

Some Problems of Organisation.

Assuming however honest and capable management, there still remain a considerable number of problems which must be investigated. In the first place, it is necessary to find out if there is any limit to the number of separate units which a managing agency firm can efficiently manage. The burden of managing agents will become excessive when one firm manages several units. Concentration of several mills has obviously a limit set by the financial capacity of the managing agents. Secondly, is the system of investing the surplus funds of one concern in the business of another concern, objected to by several witnesses before the Tariff Board, really objectionable? On the contrary, one would expect that the co-ordination of financial facilities which a managing agency firm is able to bring about between the units under its control would result in a reduction of cost. Thirdly, it may be argued that the managing agency system is likely to fall between two stools. It cannot secure that degree of rationalised control which an amalgamated combine will be able to secure, and therefore under the managing agency system, the costs will be higher than under an amalgamation or combine. On the other hand, the looseness of its structure combined with the conflicting interests between the shareholders and the managing agents may bring about results worse than when each unit is under a separate management. Indeed in one or two cases agreements have been concluded between individual concerns and the managing agency firms that the latter must not take up for management, much less float a new concern in the same industry. The Tata Steel Company and the Hoogli Engineering and Docking Co., which have concluded agreements with their managing agents, may be quoted as illustration in point.

Another question remaining to be investigated is to what extent it is an advantage for managing agents to have a variety of industrial units under their control rather than a number of concerns in one industry. It has been said that one reason why the Bengal agency firms were able to bear the brunt of industrial depression more easily was that since they were controlling tea companies, coal mines, jute firms, etc., depression in one industry

did not affect all their concerns alike. In Bombay the managing agents found every one of the units under their control equally hit during the recent depression.

In the absence of reliable data, it is only possible to pose these questions and not to answer them. But it is hoped that further researches on these problems will throw more light.

A NOTE ON JAPANESE INDUSTRY

BY

PRINCIPAL J. W. THOMAS,
Hailey College of Commerce, Lahore.

Probably, the first thing that one notices in any comparison of the economic conditions of the two Asiatic countries is the fact that Japan is ever so much more industrialised than India. While it is quite true that more than half the total number of people living in Japan are still entirely dependent on agriculture for a livelihood, yet this is by no means so large a proportion as is the case in India, where about seventy[1] per cent of the total population are dependent for their means of subsistence on the produce they extract from the soil. On top of this we have to remember the very large number of the Japanese people who are engaged in an industry which is more akin to agriculture than to factory industry, namely, fishing, in which there are so many who take to it as a subsidiary occupation, in addition to that large section of the population (about two million people) who adopt this trade as the sole means of earning their livelihood. Still even when we have taken both these trades into account and compared them with the number of agriculturists in India we find that there is a much greater proportion of the population engaged in manufacturing industry in Japan than there is in India.

Another matter in which the Japanese industrialists appear to be ahead of the Indian manufacturers is in their effective collective organisation. It seems to be generally admitted that the Japanese have a considerable capacity for organisation and that this has helped them very materially in their efforts to industrialise the country during the last sixty years. This is still true even though so much of Japanese industry is, as we shall try to show in a moment, still very largely in the hands of small industrialists. Wherever there has been any attempt at large-scale organisation, this has been done fairly thoroughly. One of the striking things about the industrial organisation of

[1] Many people put down a higher percentage; it all depends on classification. Probably on a comparable basis with the Japanese it should be at least seventy-five per cent for India.

Japan is the fact that the large concerns are mostly in the hands of a comparatively few firms (we may say even a few families) and these, for the most part, are (or were originally) banking firms.[2] In the cotton industry most of the big factories are in the hands of two or three concerns. These not only buy the raw material (usually on the spot where it is grown, *e.g.*, Panjab), gin, press and bale the cotton, arrange for its transport to Japan, spin it into yarn and weave it into cloth, do any necessary bleaching, dyeing and finishing of the cloth, but also market the product, at home or abroad, directly through their own agents. Wherever desirable they also arrange for the labour supply to be engaged and brought to the mills, there to be housed and fed by the firms, which thus exercise an effective control over most of that large and important industry. Further, while there may be differences of opinion as to whether the Japanese have much initiative or not, few will doubt their ability to imitate.

It must not be forgotten, however, that one of the outstanding features of Japanese industry, even to-day, is as we have just said the relatively large number of small firms. Quite a large proportion of the output of the country is done by, what is really "domestic" industry, even though much of it may not be carried on entirely in the homes of the workers, but in small workshops. This prevalence of the small sized, industrial unit is to some extent hidden in the published returns of the number of factories in Japan, where any workshop employing five or more people is called a "factory." It is still true to say that, taking the country as a whole, the small workshop and cottage industrial unit is still the predominant type and that what we usually understand by the term "factory" is the exception rather than the rule.[3] According to the investigations conducted early in 1935 by the Tokyo Chamber of Commerce over 96 per cent of the factories in Japan, employ less than 100 workpeople. (This does not, of course, include workshops employing less than five people as these are not counted as "factories.") Domestic industry still flourishes in Japan where there are thousands of small craftsmen engaged in their own homes, or in little workshops, alongside the most modern mills.[4]

2 One has only to look at the advertisements of, say, the Mitsui and Mitsubishi Companies to see the extraordinary wide range of their interests.

3 See Jones "Japan", p. 90, and Utley "Lancashire and the Far East," p. 113 and p. 130.

4 The workman can and does, usually remain an independent producer in any region where the raw material is easily accessible and the market for the product is local.

Of the chief export industries of the country only in four (raw silk, rubber, glassware and electric bulbs) does the total production of large factories exceed that of the small establishments. Most of the weaving of silk is done in small mills, as is also cotton and rayon-weaving, even though cotton and rayon *yarns* are mostly made in factories employing over 200 work-people.[5]

Another thing in which the comparison is not in favour of Indian-industry is in respect of the training and skill of the workers. This advantage starts right from the bottom because education is compulsory for both sexes and all classes in Japan, whereas we know that this is far from being the case in India. This gives the Japanese manufactures a big pull in the shape of a much better trained " raw material " on which to build up an efficient labour supply. The new employees are quicker to pick up the rudiments of their jobs and also much more attention has been, and is, paid to the technical training not merely of the managers and captains of industry, but also of the general rank and file of the workers. Vocational training, technical and commercial is not only much more common, but is carried to a much more advanced stage in Japan than it is in India. This great advantage too is being enjoyed in an increasing measure by the Far Eastern country because of the larger relative number of Japanese who are engaged in industrial effort and are thus forming part of a more or less trained staff, building up a tradition of skill and technique. As a result of the industrial development of the country this advantage has become cumulative; probably there is now a much greater volume of experience to be found in Japan than in India. As mentioned above, this is increasing year by year and will do so until India has made much greater strides in industrialisation and the " powers that be " in this country have realised their responsibilities in respect of the necessity for adequate provision of primary and vocational education. Here, in India, however, we are falling still farther behind in this respect and, if I may, I would like to emphasise the imperative necessity for serious attention and immediate action on the part of industrialists and government in this fundamental factor in the economic struggle. Do not let me to be misunderstood. I am not contending that the average Indian is behind, either of the other two peoples (or any other people for that matter) in her native intelligence; far from it, I do not think he (or she) is at all behind; it is simply the fact that, in so

5 " Japan Weekly Chronicle," 18th April, 1935, p. 498.

many cases the initial, mental equipment of the people has never had the opportunity of being cultivated. There is, in this country, a mass of untrained and undeveloped brain power which up to now has never had a chance of making good and being used. The general standard of education, taken as a whole, is terribly low, with the inevitable result of an appalling loss of efficiency and potential productive power. Hence an immense waste, I almost said a criminal waste of what is, after all, one of the most valuable things any country can possess, *viz.*, human life and energy. (Shall I be committing an unpardonable offence if I ask if there is anything held so cheap in India as human life?)

Not merely are the Japanese workers more generally efficient than those of this country because of their better education and wider training, but generally they work much more intensively. Probably at bottom, this is due to climatic reasons, but there it is, a by-no-means negligible factor to be taken into account when comparing the economic efficiency of the country with that of other lands, and especially of India. Then we have also the fact that the wages paid in Japanese mills are no more, even if as much as those paid in similar trades in this country.[6] The cost of living for the average Japanese worker is also remarkably low and he can thus maintain himself and his family, on a reasonably efficient basis, with a comparatively low wage. The combined result of the things we have mentioned in connection with the labour supply, is to make it really cheap and hence provide a big advantage for the Japanese producers of goods for export in competition with Indian industrialists and those of other countries.

6 A few examples may be quoted from the figures of the average daily earnings of various industrial workers in September, 1934, published by the Japanese Department of Commerce and Industry—

	Yen (=12½ annas).
Textiles—Females.	
Cotton spinners	0·66
Silk spinners	0·63
Cotton power loom weavers	0·64
Rayon power loom weavers	0·85
Metal-workers—Men.	
Fitters	2·66
Welders	2·49
Matches—	
Males	1·01
Females	0·61

Then again, for the most part, the Japanese factory worker is provided with better machinery on which to operate. Few countries, if any, can boast of more up-to-date machinery than that which is installed in large-scale industrial concerns in Japan. The small workshop there may be very little different in this respect from similar places in India but, if one were to compare for instance the machinery one saw in the textile mills of Japan with what one has seen in this country, then the contrast is very noticeable and not in favour of India. There may be particular (or peculiar) reasons for the maintenance of the older equipment in the Indian mills, but the difference in this matter is certainly very pronounced and does, in my judgment, give many Japanese manufactures a strong competitive advantage, even though not quite so great as is sometimes claimed.

Then, of course, there is the old question of government help to industry which has been so pronounced a factor in the economic development of Japan since the Meiji Restoration nearly seventy years ago. This has not been a negligible factor in many an other country, but probably in no other land has this been so common as in Japan. It may be argued that there has been too much of this kind of thing in that country, especially if one considers the effect on the whole economic structure of Japan. One might, for example, seriously question whether the agriculturists have not been compelled to sacrifice far too much on the altar of industrial development, and there is also the further consideration as to whether so much spoon-feeding is good for " infants "—even those pampered darlings of protectionists everywhere, infant industries. The question arises as to how long can this special feeding be continued in Japan, and if not forever, then what is likely to happen if, and when the government help is withdrawn. Partly because of this long-standing, close connection between government and industry we find a very strong influence exercised on the government of the country by big, business interests. This has been somewhat unfortunate, as the influence generally is felt by most people to be of an unhealthy and undesirable character.[7]

7 ")The connection between business and politics and the corruption which has unfortunately become a marked feature, not only among the political parties in the Diet but also in local administration, cause grave misgivings among all Japanese who have the good of their country at heart, and lead to condemnation of industrialism and its concomitants as destructive of the national morale and of much that was good and wholesome in the days of old Japan." Jones.—" Japan," pp. 99-100.

A further factor which cannot be ignored in any study of this character, is the extraordinary patriotic feeling prevailing among the people of Japan at the present time. Ever since the " Manchurian Incident " of September, 1931, the Japanese have been taught to consider this period as a time of " national emergency," something similar to what the European countries regarded the period of the Great War, and hence most of them are imbued with a very strong patriotic sentiment. This is supplying the urge, motive and driving force for a tremendous effort, not merely politically but economically. The labour unions in Japan, even at their best, have never been particularly powerful, or effective in their ostensible objects; they have never provided the Japanese workmen with a really salutary check on the employers, and, during the last few years such trade unions as exist have been singularly futile. They are walking more and more in step with the employers and at present seem to be even proud of the fact that their usefulness as effective workmen's organisations has been put into " cold storage."

Generally, it seems likely that the efficiency of the Japanese as a competitive unit is likely to increase rather than decrease. There seems to be little likelihood of wages increasing in the immediate future, with the trade unions as futile as they are at present and with the current patriotic frame of mind of so many workers. Nor does there seem to be any prospect in sight of any material change in the standard, or in the cost of living. So far as one can see the only two things that are likely to effect any substantial change in the economic position of the country in the near future are,

(*a*) an outbreak of war;

(*b*) some internal financial trouble as a result of the government over-spending, with its resulting lack of equilibrium in the country's financial affairs.

It may be too, that there is some danger in the agrarian situation because of the dire distress of the farming community, but the peasants, even more than the industrial workers, seem to be filled with a very large measure of that ultra-patriotic spirit and hence are willing to put up with what would be regarded as impossible conditions to the peasants of many other lands, even though agriculturists everywhere are notoriously patient and long-suffering.

Without attempting to discuss some of the more obvious disadvantages of the Japanese industrialists at present, such as

for instance the lack of essential raw materials for industry, with no big quantities of indigenous goods (apart from raw silk) to provide large exports, and without wishing to discuss such matters as the reputation of the country for sending out products that are not a good advertisement for the country, or whether the Japanese industrialists are attempting to do too many things to do them all successfully,—leaving all these aside, one cannot but feel that there are certain inherent weaknesses in the Japanese economic position to-day, especially on the financial side. The question does arise as to whether Japan will be able to continue for long the practice of heavily subsidising her industries, and spending huge sums on military projects, armaments and kindred manufactures, with the resulting badly unbalanced national budget.[8]

That is a matter for the future to decide. Sooner or later it seems inevitable that there will be a financial crash; and if and when that day comes what will be left of Japan's present "prosperity on a lower standard of living" and what will be the effect on the economic (to say nothing of the political and social) fabric of the country I do not venture to prophesy; I am only a student of Economic History.

[8] To the extent of some 900 million yen over an income of 1400 million yen in recent years.

THE STRUCTURE OF INDIAN HANDICRAFTS

BY

RADHA KAMAL MUKERJEE,

University of Lucknow.

Cottage industries and handicrafts in India may broadly be divided into four classes:—

(A) Peasant arts and crafts carried on in the slack seasons of agriculture and meeting usually household requirements but occasionally utilising local reed, grass, bamboo, clay, wool, cotton, etc., for an extended market;

(B) Village subsistence industries indispensable for the agricultural routine carried on by the village smith, carpenter, potter, etc., in the traditional village communal organisation;

(C) Village luxury industries carried on by the handicraftsmen representing a higher standard of local art and creativeness and commanding district and sometimes overseas markets; and

(D) Urban arts and handicrafts representing even superior organisation craftsmanship many of which still persist or thrive in the modern industrial world.

(A) *Peasant Arts and Crafts subsidiary to Agriculture.*— There is a large variety of cottage industries in which the agriculturists of India are engaged during their off seasons, which serve, so to speak, as a second string to their bow, supplementing

the main occupation when there is no work for them either at home or outside.

The mass of peasants follow subsidiary occupations whose number and variety are larger than are ordinarily supposed. Among the important cottage industries widely pursued by the Indian peasants are hand spinning and weaving, *gur*-making, flour-grinding, rice-pounding, cotton-ginning, rope-making, basket-making, mat-weaving, sericulture and tobacco manufacture. Home consumption, sufficient demand, and inadequate communications have all contributed to maintain such handicrafts in their crudity and simplicity unaffected by modern progress in either industrial art or economic organisation. Yet the craft shows tenacity as well as capacity of availing itself of raw materials on the spot while transmitting through the ages a natural dower of manual skill and aptitude.

Of the types of cottage industries which are associated closely with agriculture, hand spinning is by far the most important. Though reliable figures cannot be obtained, the amount of cotton spun by the Indian agriculturist in his cottage is still considerable while in the mountain villages the home spuns have acquired a distinction which often travels beyond the locality. As a rule, it is the women who spin while their husbands weave but sometimes custom decrees a contrary division of labour. Thus in the Almora region, the men spin almost unceasingly, while it is the women who weave. On the other hand, in a plains district like Etawah, the women are seen to weave cloth and the men to size it. In Assam also practically every peasant woman in the valley plies her loom and it is she who meets the clothing demands of the household. There are as many as 421,367 handlooms in the province according to the Census Commissioner of 1921, who adds " there is here an average of nearly one loom to every two occupied houses. Weaving is an established custom of the house-wife, and cloth is nearly always made for home use." It is because in many provinces along with the specialised caste of weavers, a considerable proportion of the agricultural population is engaged in weaving that as much as one-third of the cotton cloth consumed in India as a whole is produced by the handloom. The relative *per capita* consumption (yards) for 1933-34 was as follows: handloom production, 4·00; mill production, 8·03; and imports 2·14. The proportion is much higher in the agricultural provinces. In Bihar and Orissa, for instance, the handlooms supply even 40 per cent of the consumption of piecegoods in the province. Handloom weaving in India supports roughly 5 million

persons and its output is valued at about Rs. 500,000,000.[1] That the handloom weaving industry in India is not losing ground is indicated by the fact that the quantity of yarn annually consumed by the handloom weavers increased from 255 million lbs. during the ten years ending 1924-25 to 344 million lbs. during the ten years ending 1934-35, the increase being 35 per cent. In the Punjab and in Bihar and Orissa, the value of cotton cloth produced annually on handlooms in cottages is about Rs. 50,000,000. Madras, however, with its 170,000 handlooms working and employing about a million persons takes the lead in cottage weaving, producing about one-third of the total handloom production in India. Even in an industrialised province like Bombay there are as many as 1000 weaving centres, employing roughly 80,000 handlooms. 123,893 persons are engaged in spinning, sizing and weaving cotton in the cottage of whom 52,398 are women, mostly hand-spinners. Bombay has a special advantage in handloom production. In Northern India the price which the handloom weavers have to pay for their yarn is considerably in excess of the price of yarn and the freight from Bombay to the weaving centres.

Leaving aside spinning and weaving and the agricultural industries, such as *gur*-making, cotton-ginning and tobacco manufacture, or, again, sericulture which thrive only in a few favoured localities, the peasants sometimes show a good deal of skill in straw-plaiting or basket-making, cane work or toy-manufacture, rope-making or fan-making, coarse silk or blanket-weaving or making of artificial flowers and thus the fame of a peasant-craft spreads far and wide. Flower gardening and scent manufacture by the Jaunpur peasantry are sometimes carried on in connection with agriculture and have justly obtained a wide celebrity, while the collection and extraction of honey in many hill districts and lac culture and even shellac manufacture in several districts adjoining forests are important occupations of agriculturists.

Thus certain trades have specialised in certain special lines and yet the industrialist here is the peasant. Basket-weaving is subsidiary to agriculture in several villages in Jaunpur, Allahabad and Benares districts and basket-weaving is by no means a simple craft. The mat industry of Sylhet and Tinnevelly has acquired a reputation which has travelled far beyond the provinces and yet it is an industry which is chiefly

[1] H. L. Dey: Indian Tariff Problem, p. 64.

in the hands of cultivators. The abundance of palm accounts for the proficiency of peasant coir-spinning, wicker-work and mat-making in Malabar and in Southern and Eastern Bengal. Bamboo mats made in Karimganj in Assam are used for lining the holds of ships in the port of Calcutta and for roofing country boats, jute godowns and brick fields throughout Bengal. It may be mentioned that peasant women also play an important part in this industry. It is they who weave the mat while the men prepare the bamboos. In the Assam valley, *muga* and *endi* silk worms are reared on the land, and the housewife often weaves silk cloths showing great skill in craftsmanship. In many villages of India, we find the manufacture of wooden lacquered toys, the preparation of umbrella handles, and the making of baskets, chairs and stools.

(B) *Village Subsistence Industries.*—Here the crafts are in the hands of industrialists proper, who have little to do with farming. The village servant class of artisans include the blacksmith, carpenter, weaver, oil-presser, tanner and potter who cater to the simple needs of the villagers and are still often remunerated by shares of grain at each harvest in the village. The village carpenter and blacksmith are more commonly met with than the village potter and leather-worker; while the goldsmith will be found only in the richer villages. Everywhere the carpenter's and the blacksmith's perquisites in grain which are usually the same are greater than those of other artisans and menials. The artisans who are not to be found in a particular village or group of villages cater for them by periodic visits and by displaying their wares at religious gatherings. The weaver is now being squeezed out of his ancestral calling on account of the competition with machine-made cloths, the potter also finds the market for earthenwares shrinking due to the introduction of metal utensils and the oil-presser is also being ousted from his traditional occupation by the modern product. Everywhere as the traditional caste occupation of the artisans has become less remunerative, they have turned to agricultural or pastoral employment.

The following table gives for the chief artisan classes of the United Provinces the proportion to all workers of earners (principal occupation) *plus* working dependants, and of earners (subsidiary occupation) who returned their traditional occupation in 1911 and 1931.[1]

2 U.P. Census Report, 1931, p. 409.

Number per mele of workers who returned their traditional caste occupation as

	1911			1931		
	Principal Occupation.	Subsidiary Occupation.	Principal or Subsidiary	Principal Occupation.	Subsidiary Occupation	Principal or Subsidiary.
Blacksmith...	318	100	418	313	126	439
Carpenter ...	415	116	531	403	141	544
Potter ...	432	79	511	365	95	460
Weaver ...	505	14	519	428	38	466
Oil-presser ...	436	82	518	408	80	488

It will be noticeable that in every case the proportion of workers who have returned their traditional occupation as 'principal' has declined, and the decline is striking in the case of the weaver, potter and oil-presser.

The process of de-industrialisation in the village as a result of which artisan classes tend to follow their hereditary occupation as subsidiary is more prominent in some provinces than in others and has to be carefully watched. Yet here and there even a village subsistence industry may show a striking skill and efficiency and finds a wider market for its products than a village or a group of villages.

The potter from Bengal who brings his earthenware vessels in boats to Assam finds a ready market largely because he is a better craftsman than the Assamese potter. As a rule, however, the village subsistence industries depend for their prosperity or adversity on the fortunes of agriculture. But this applies in some measure also to the village luxury industries. Often do the artisans supply silk cloths, metal utensils, furniture, shoes, and even ornaments to the peasants on credit who begin to pay for the articles purchased after the reaping of the first harvest. Thus village subsistence and luxury industries are both linked up with agriculture. As agriculture improves with the introduction of power-driven machinery in the villages as it has done in certain parts of India such improvement can only be stabilized if the village artisans can effect repairs, and stock and fit spare

parts. Seldom, however, have the village craftsmen shown a new attitude and acquired a new skill and training in such directions.

(C) *Village Luxury Industries.*—In many areas in India village luxury industries have acquired a widespread celebrity. Familiar instances are, lac and toy manufacture in Budaun, Meerut, Mirzapur, etc. (U.P.), at Bolpur (Bengal), at Chennapatna (Mysore), at Parlakimedi, Kondapalle, etc. (Madras) and in certain villages of Sylhet (Assam); carpet-weaving in Mirzapur, Malda, Madura, etc.; metal work in Baidyarajpur (Bihar), Santipur, Bishnupur, Kharar, Khagra, etc. (Bengal), in Karaikudi, Anupurapalayam, Muddanaikenpatti, etc., (Madras); the manufacture of conch-shell bangles and mother of pearl buttons in the villages of Dacca (Bengal); artistic clay-modelling in Mirzapur (U.P.), and Nadia (Bengal); paper-making, manufacture of pith sunhats and helmets, horn, combs, and vegetable dyes in various rural centres. But it is needless to mention more: this list which is by no means representative is intended only to indicate the wide variety of rural luxury industries. Some of these command overseas markets. To give but two or three instances, *lungis* and *saries* (coloured cloths and scarfs) made at Melapalayam (District Tinnevelly, Madras) are exported to Malaya and Dutch East Indies; glass bangles made at Etah, Fatehpur, Firozabad (U.P.) are exported to Persia and Arabia; embroidered *bhiti* cloths woven in the villages of Dacca (Bengal) are exported to Afghanistan, Turkey and Persia for turbans; silk *Khes* made in the villages of Shahpur (Punjab) are exported to Africa. Every district is found to contain one or more villages where cloth and silk weaving, wooden work, gold, silver, brass, copper, bell-metal, lacquer, bamboo, cane, pith, rattan or leather work is carried on to a high standard of artistic excellence and where these articles are sold in the local bazars or by itinerant dealers who carry these to distant markets.

As the industries develop variety or distinctiveness, the middleman slips in and supplies the artisans with raw materials with the object of obtaining cheaply their manufactured goods. This no doubt ultimately leads to the extension of markets; but isolated and unrelated industries lend themselves easily to exploitation by middlemen.

(D) *Urban Arts and Handicrafts.*—In a town or city there is scope both for an extended market and large variety of production, involving specialisation in industry and trade. The patronage of the nobility, the desire for luxuries among an ease-loving public, the religious obligation to purchase particular varieties

of goods, the hereditary skill and dexterity of particular castes or groups of artisans, all these have contributed to the development of handicrafts and industries of luxury. But the economic status of artisans has not improved; indeed the greater the demand for art wares or the cost of their raw materials, the stronger is the grip of the middlemen or the capitalists on the aritisans and their work. Another reason why the urban artisan is sometimes worse off than the rural worker and tends to fall more and more under the grip of the *mahajan* is that he has no connection with the land on which the latter falls back in difficulty and has to fear the competition of a wider market. If he is manufacturing for export, "he has not the means, the capacity or the organisation to dispense with the middleman."[3]

Types of Middlemen in Urban Industries.—There are thus various types of middlemen. There is firstly the itinerant dealer who supplies raw materials to the artisans. The most familiar instance is the trader who supplies yarn to the weaver in his cottage, and gives him piece wages or deducts a commission when he takes over the finished product. In blanket-weaving the dealer supplies ready-spun yarn to the weaver and collects from him the finished goods. Even in carpet-weaving dealers and firms usually advance cash and sometimes yarn to the weaver, and afterwards take over the finished product. Similarly, the trader in needlework and embroidery (*chickan*) of Lucknow and some part of its gold and silver thread work (*gota*) is controlled by one or the other of these classes of middlemen.

The Karkhanadar as (i) *his own Financier and* (ii) *as Contractor.*—Sometimes, again, the middleman is himself an artisan who has grown rich and employs his fellow artisans either in his own establishment, the *karkhana*, or in their homes. In Benares, for instance, the *Karkhanadar* weaver supplies the artisans with the raw materials, gold and silver threads, yarn and dyes, and even with the looms, where they work in the *karkhana*. Some *Karkhanadars* are also yarn dealers. Similarly in the metal industry of Moradabad the *Karkhanadar* supplies the metal sheets and implements to the artisans, whether they work in their own cottages or in his shop and usually buys these sheets from other middlemen on credit.

The large dealer as (i) *financier.*—The large dealer or the *mahajan* is often indispensable in the financing of such industries, such as silk-weaving, carpet-weaving, gold and silver embroidery, brass, copper and bell-metal industries; the manufacture of

[3] Provincial Banking Enquiry Committee Report, Bihar and Orissa, p. 92.

expensive cotton fabrics, or even conch-shell, pearl button or horn industries; in certain centres middlemen of this class usually supply the raw materials to the *Karkhanadars* or to the individual artisans but the artisan who works at home is becoming rare in such trades. There is a tendency for the industries to drift from the home to the small workshop as the artisan finds the materials too costly for his pocket or is unable to take risk himself on account of the severe competition with cheap artificial silks and embroidery, machine-made cloths and carpets, enamel, aluminium and porcelain vessels and other wares imported from Europe and Japan. Elsewhere the individual artisan, working on his own account and the *Karkhanadar*, who is his own financier and undertakes all the risks of the industry, persist. The organisation varies in different industrial centres according to the competition with foreign products or the facilities of credit and local marketing. As there is a vitiation of public taste and the traditional requirements with regard to raw materials, finish of the work and artistic standard fall into disuse on account of the serious competition especially with cheap German and Japanese goods, the tendency of the artisans to shift from the home to the workshop, whether of the master artisan or under the thumb of the big dealer and capitalist is enhanced. In the gold and silver thread manufacture industry in Surat employing about 13,000 workers, 2000 are independent artisans working on their own account, 6000 workers work on wages in the *karkhanas* and 5000 more are dependent working to order at their own residence. The total value of the gold and silver thread used in this industry is estimated at Rs. 10,000,000, the daily consumption being estimated at 336,000 tolas of silver, and 672 tolas of gold for 300 working days in the year. If we add these figures the value of the production, in Surat, would be nearly Rs. 40,000,000.

The large dealer as (ii) *a Coordinating agent.*—In some branches of metal work where the processes of manufacture are so specialised that they cannot be undertaken by the same set of artisans either in their homes or in any *karkhana*, the large dealer who supplies the artisans with the raw materials coordinates the different branches of production. His functions, in short, here combine those of the financier and the *Karkhanadar*. The brass and copper industry, for instance, is organised in various ways in different centres, such as Benares, Moradabad, Calcutta, Conjeeveram. In such widely different centres such as Moradabad (United Provinces), Kumbakonam (Madras) and Dharwar (Bombay) wealthy merchants run the workshops, in

which as many as a hundred artisans may be employed usually at piece rates. In most centres, the *Karkhanadar* works with materials, supplied by the middlemen, who are dealers in these wares, employing a few workmen artisans under him. Sometimes again the artisans work at home obtaining the raw materials either from the *Karkhanadar* or the large dealer. But this is becoming rare except in the outlying areas or where the products have not improved beyond certain standard. Whether the artisan, the workshop-owner or the *mahajan* gains his ascendency depends upon various factors such as the supply of skilled labour, the facilities of credit, cost of raw materials and the risk of the business. It should be mentioned here that some of the merchants and most of the workshop-owners belong to the same caste or guild and they do or drive as hard bargains with the artisans as the outside *Karkhanadars* or *mahajans* do. In any case it seems possible in any such industrial organisation to get the *Karkhanadars* on the side of any scheme of reform. such as the introduction of new tools, appliances and designs. Often the *Karkhanadars* recruited from the same caste, exercise a sort of supervision over families of poorer artisans, whom he may employ with the object of keeping up the reputation for the quality of their goods.

Yet another cause of the prevalence of the middleman system is the seasonal nature of the industry. All crafts such as tailoring, lace, needlework and embroidery work labour under the special disadvantage that they show an exaggerated alternation of overwork and unemployment due to the fact that they satisfy occasional or seasonal needs in India.

The workers many of whom are women being under *purdah* (seclusion) have no staying power and are completely under the thumb of the *Karkhanadar*. who keeps them alive by advances during the dead season when the *karkhanas* are not working. It is this which is the principal cause of the prevalence of *baqidari* (arrears) in these seasonal trades. Irregularity of employment, again, weakens the habit of saving amongst artisans who are mostly illiterate; whilst the *Karkhanadar*, whose financial position rarely is such that he can afford to lock up his capital during the slack season, is in his turn entirely dependent upon *mahajan*.

Even where the industry is not seasonal, and the products are in demand throughout the year as in the case of brass or copper wares, the cost of the chief raw materials has favoured the dealers who even by withholding orders try to sweat the workers in spite of some solidarity on the part of these workers hardly to be met among other handicraftsmen. There is a ceaseless attempt on the part of both workers and dealers in this

instance to obtain advantage over one another. This is clearly apparent in seasonal or local fluctuations of wages and prices in an industry which normally ought to be free from these in view of the steady and long period demand of its products. On the whole, the *kothis* get the better of the artisans, especially where they do not confine themselves to dealing in local products but import wares from other centres of metal work, an advantage which helps them to tighten their grip over the local artisans still further.[4]

We may now classify the cottage industries and handicrafts of India according to their structure and organisation. Speaking of the handicraftsman in France, Arthur Fontaine, the well-known authority on the small industries of that country, wrote: " Like vegetable and animal species the various economic categories are connected with each other by intermediate links which cannot be classified with any certitude and which help to make of the series of types what is practically a continuous chain." The same chain can be observed in India.

(1) There is the artisan who deals directly with the consumer and works with his own materials. This is generally true of all cottage arts and crafts carried on as subsidiary to agriculture and of village subsistence industries in the hands of artisans who are a part and parcel of the rural community and paid in shares of grain.

(2) Other artisans though dealing directly with the consumer are provided with material by the latter on a piece-wage system. Familiar instances are village handicrafts in which the materials are more costly or distinctive than usual, wood-work and furniture in peasants' cottages, gold and silver work and dress-making.

(3) Other artisans receive advances of cash or raw materials from itinerant middlemen who take over the finished products. This is the most familiar type. Among industries conducted on this system may be mentioned weaving of all kinds, including silk-weaving, carpet-weaving, and blanket-weaving and most village luxury industries where the wares command outside markets.

(4) Another type is the artisan who works in a *karkhana* under a master artisan (*ustad*), being supplied with raw materials

4 For the relations between artisans and middlemen I have freely availed myself of the materials submitted by me as a member of the Provincial Banking Enquiry Committee, U.P. *Vide* my memorandum on the small industries of Lucknow, Report of the Committee, Vol. II and also Chapter X, Vol. I.

and often with tools. The *Karkhanadar* may himself be dependent on the middleman or large dealer, or he may be his own financier and deal directly with the general public. This organisation is commonly found in shoe-making, artistic pottery, wood-carving and silk-carpet, or blanket-weaving. Whenever a cottage industry is in the hands of a particular caste, it easily assimilates itself to the workshop system; the *Karkhanadar*, an artisan himself, provides the necessary tools, employs his caste-fellows on piece wages, and himself arranges the sale of the finished products. It is a survival of the mediæval guild.

(5) In some crafts the *Karkhanadar* has not risen from the artisan class, but is mere capitalist who has invested his savings in the business. Such is the position of the big furniture dealers, who run workshops in which hundreds of artisans are employed on piece or daily wages.

(6) Again, the *Karkhanadar* may become the contractor or sub-employer working under the large dealers, who advance him raw materials and collect the finished goods manufactured by the artisans employed by the former. This system is found in the lace, the *gota*, the gold and silver wire and allied industries to some extent in the silk-weaving industry, in the brass, iron, copper and bell-metal industries in most centres, in *durrie*-weaving, calico printing and in shell, horn and button manufacture.

(7) Lastly, there are industries in which there is no *Karkhanadar*, but the dealer or middleman supplies raw materials to the various branches of the industry, finances and co-ordinates the manufacturing processes from stage to stage, and finally disposes of the wares. This kind of organisation is found in certain metal industries.

WAGES AND INTERNATIONAL TRADE

BY

CH. SITARAM SASTRY,

Lecturer, Andhra University, Waltair.

I

If two countries carry on trade with each other under the ordinary assumptions of " Equilibrium Economics " there is a tendency for the foreign market goods to attain price uniformity expressed in the same monetary units in both the countries, while the home-market goods are mainly subject to local conditions of demand and supply. Hence Taussig comes to the conclusion that a country enjoying high money wages stands to gain more from international trade, for she will be able to purchase international goods at the same prices as in the low-waged countries, so much so, that she is left with greater purchasing power to spend on home-market goods. To quote Taussig:[1]

> " The key to the apportionment of advantage is found in the money incomes of the people of the exchanging countries. The most striking concrete illustration is in the trade between Great Britain and British India. The trade is free (some recent restrictions through import duties are so slight as to be negligible). Money incomes are high in Great Britain, low in India. Those goods which are exchanged between them—international goods—sell at virtually the same prices in both. Evidently the Englishman with his high money income is in a better position as purchaser of these international goods than is the East-Indian with his low money income. But this is no necessary feature of the trade. It is quite conceivable and quite consistent with the continuance of the trade

1 Taussig : International Trade, p. 18.

> that the situation should be reversed, that the East-Indian, not the Englishman, should have the high money income and the greater share of the possible gain. And it is no less conceivable that money incomes in the two regions should be the same and the gain thus shared equally. The existing situation is not at all necessary outcome from the given conditions, but only one among several possibilities and the significant indication of the nature of the outcome which in fact has been reached is the difference of money income between the exchanging countries."

This extended quotation is given, for it forms the theme of this paper. Taussig observes that the present situation need not be the necessary outcome and that conditions might become definitely more favourable to India. I would like to discuss how far Taussig's view is tenable, and what those circumstances are that would make the terms of trade more favourable to India and how to attain them.

Taussig's treatment of international trade is more or less based on the classical doctrine of "Comparative Costs" as put forward by Ricardo. But, in the first place, he observes that international trade is chiefly attributable to absolute differences in costs rather than to comparative costs. The trade between the tropical countries and those in the temperate zone is mostly based on absolute differences in cost. Taussig makes a free use of the "Price-Specie-Flow" explanation of prices. He also assumes that the relative incomes of different categories of labour in different countries brought into trade relations remain more or less on the same scale of proportions.

This assumption in a way precludes an investigation of the important problem of the connection between international trade and income distribution. I say, in a way, because even the classical doctrine discusses the problem of the 'barter-terms of trade' and the relative gains of such international exchange. This adjustment is brought about by the price-specie-flow explanation. The relative gains accruing from international trade depend upon the relative intensities of demand for each other's goods.

II

In the period 1898—1914 India was greatly benefited by her export trade. This period was one of great development of

trade and industry in all the countries of Western Europe, in the United States and in Japan. The growing demand of these nations for food-stuffs and raw materials led to an increase in the prices of those commodities. Both J. M. Keynes and Professor Taussig hold the view that, from the commencement of this century to the beginning of the war, the balance of advantage in international trade moved in favour of countries producing food-stuffs and raw materials.[2]

Datta in his " Enquiry into the Prices of India "[3] comes to the same conclusion. He observes that the wages of all wage earners, rural and urban, during 1898—1914 rose steadily throughout the period. The real wages rose 38 per cent above the level of the standard period. He also points out that, owing to a great increase in the demand for labour in rural areas, there had been a considerable reduction in the period of unemployment of such labourers. But the rise in the urban areas was not so high as in the rural areas. It is to be noticed in particular that the wages of the employees in the mining industries rose to a higher level than that obtained by any other class of labourers.

These statistical studies of Datta fall into line with the inferences that can be drawn from pure theory. Taussig observes:

> " The determining cause of the general rate of money income and wages in a country is to be found in the exporting industries. They set the pace; not for real wages. Whatever is yielded by them tends to become, under the influence of competition, the ruling rate in the country at large—in other industries, as well as in those exporting."

According to Taussig the forces that govern the range of prices and money incomes are: the relative effectiveness of labour in the export industries on one hand and the degree of foreign demand for the products of those industries on the other.

Taussig's observations are borne out by the above-mentioned facts. The highest increase in the wage level we find in the

[2] J. M. Keynes : *Economic Journal*, Volume XXII (1912), p. 630 ff.

Taussig : " Great Britain's Foreign Terms," *Ibid.*, XXXIV (1925).

[3] *Enquiry into the Prices of India*, p. 170 ff. But Datta's results cannot be taken as valid, because there is some contradiction in his arguments as pointed out by Jathar and Beri and Brijnarayan

wages of the agricultural labourer and of the rural artisans. This was due to the rapid increase in the export trade of India. Then again the maximum increase is in the case of miners. This again exemplifies Taussig's observation that the wages in other industries are in a way ruled by the wages in the export industries. The employees in the coal mines are mostly drawn from the rural areas and hence improved conditions in those areas will naturally lead to a rise in the price of labour. The wages paid to an unskilled labourer are influenced to a large extent by the prevailing rate of wages for agricultural labour in the neighbourhood. So we see that Taussig's analysis of international trade and its effects on the range of prices and money incomes is more or less in accordance with observed facts.

III

Ohlin differs from Taussig and rather strongly criticises his theory. He observes:[4] "There is no one-sided causal relationship; wages in export industries do not govern wages and prices in home-market industries any more than the latter govern the former. Conditions of demand, supply, etc., in all industries, *i.e.*, the whole price system, govern all prices and wages." His point of criticism is that the size of the export industries and their prices and effectiveness are not known *a-priori*. These things cannot be determined irrespectively of the quantities and prices and wages in home-market industries. He finds fault with Taussig for using the average output per worker in his attempts at verification measuring the comparative effectiveness of labour in different countries and this he says is something quite different from marginal productivity. He rightly observes that the average output depends not only upon the quality of labour, but also upon the quantity of natural resources, technical labour, and capital per worker and upon interior and exterior transfer conditions. Average production, of course, is something different from marginal productivity but I think Taussig is correct in using average productivity in comparing the effectiveness of labour in different countries. Marginal productivity does not measure the absolute efficiency of industrial labour, but it is simply a measure of the degree of indispensability of that factor of production when compared with other factors. That is a measure which determines the remuneration

[4] Ohlin: *Interregional and International Trade*, p. 280.

to labour in relation to other factors. Hence Taussig's method of comparison is not wrong. Ohlin contends that the so-called superiority of the worker in the United States is not due to any fundamental differences in the quality of manual labour, but simply to the quantity of the other cooperating factors of production with each unit of labour. To this criticism Taussig's reply is as follows: "In the language of every-day life, it was the greater use of power and machinery that most contributed to making American labour effective and productive. In the language of economic theory, it was the use of previous or ancillary labour, given to making the machines, which combined with the necessary waiting served towards making all the labour more effective." Taussig emphasises the human rather than the merely physical factors in his analysis of the gains from international trade. A high scale of wages or money incomes is the determinant of the gain from international trade and Taussig finds that "those countries have high money wages whose labour is efficient in producing exported commodities and whose exported commodities command a good price in the world's markets." Cannan also takes the same view: he emphasises the human factor. In a particular country the productive factors are more per worker because of the greater forethought, endurance and such other virtues. He observes:[5] "All the really great national differences are clearly due to differences of personal efficiency between the inhabitants of the different countries. What is the difference between earnings in England, an old, and the United States, a new, country, compared with the difference between, say, England and the Congo, both old countries? It is no use to talk of deficiency of capital and education, since these things could have been got by a more efficient people."

Ohlin does not lay all the emphasis on the human element. He explains the different levels of wages in countries which compete more or less closely in several lines of industry by a reference to the differences in factor equipment in the several countries. "The extremely low wages of Asiatic farm labour are, of course, partly to be accounted for by the different kinds of labour there represented. But they are also very largely due to an element which is also probably the chief cause of wage differences between European farm labourers of different nationalities, namely, the equipment of cooperating productive factors, *i.e.*, natural resources, technical labour, and capital."

5 Cannan: *A Review of Economic Theory*, p. 359.

From the table[6] given below it is clearly seen that the wages are high in those countries whose factor equipment is correspondingly high. " This must be a causal relationship " says Ohlin " and not a mere coincidence."

Coming to manufactures we find similar differences in factor equipment. Ohlin selects more or less the same industries (coal, iron, cotton, window-glass etc.) as is done by Taussig in his comparison of the efficiencies of labour in different countries, and points out that there are marked differences in the proportions of factor equipment. The number of labourers of a technical and organising sort per hundred of manual workers is much higher in certain countries than in others. For these and other reasons the quantity of output per manual worker differs. After examining certain statistical data Ohlin comes to the following conclusion: " Nevertheless, such figures give some support to the view that the actual wage differences are to a great extent due to other circumstances than differences in the quality of manual labour, *e.g.*, to the equipment of other productive factors, transfer conditions etc."[7]

The difference, therefore, between the two lines of argument centres round the degree of importance to be attached to the human factor. Cannan and Taussig lay special emphasis on the human factor, whereas Ohlin, though he concedes to a certain extent the importance of the purely human element, thinks that the productive efficiency of a worker depends upon the other cooperating factors of production.

Very often the Indian worker is accused of inefficiency. Mr. Rajanikanta Das in his book on *Factory Labour in India* refutes the prevailing notion that three factory employees in India

6 Ohlin, p. 275.

	Agl workers per sq. mile of agl. land.	Live stock per 100 agl. workers.	Wages.
Japan ...	503	23	26 (plus board).
China ...	260	?	42
Italy ...	89	117	100
Germany ...	80	251	200
Sweden ...	50	372	180
Denmark ...	44	760	185
U. S. A. ...	11	878	364
Australia ...	1	5360	...

7 Ohlin, p. 277.

are equal to one in Great Britain, on the ground that there does not exist the equality of working conditions for such comparison. Mr. G. Findlay Shirras, an ex-Director of Labour, in his evidence before the Tariff Commission declared that an Indian weaver was not at all a bad weaver and that he could get the same efficiency as was customary in Lancashire. The Bombay Textile Labour Union in their written evidence before the Whitley Commission observe:[8] " A comparison is sometimes made between the number of looms and spindles that the workers in India and the workers in other countries mind in order to show that the Indian workers are less efficient than other workers. It is mischievous to make such a comparison without taking into account other factors of great importance. The Bombay millowners conveniently forget the climatic conditions, the stamina of the operatives, their conditions of service, their housing, their education, the quality of raw material supplied, the differences in machinery, the labour saving appliances etc., and without justification they condemn their own operatives."

The contention, therefore, is that the inefficiency of the Indian worker is not in any way due to his inherent defects, but to the circumstances in which he has to work. Those who take the opposite view argue that these external circumstances also are the outcome of the human factors, the methods of life, social habits etc. But Cannan also admits that these differences in equipment and economic organisation are also due to historical and political factors, to good or bad government.

The industrial progress of Japan, America, Canada, and other non-European countries shows clearly that it is not the monopoly of the West only. It is based on Science and Technique. M. Paul Valery's observations on this subject are worth quoting:[9] " Europe laid the foundations of Science. Science has transformed civilization, and has multiplied the power of those who possess it. By its nature it is essentially capable of being transmitted, for it can be resolved into certain methods and formulæ of universal application. The means which it has given to the one can be acquired by all." If it is a question of arts and handicrafts, personal and national elements will greatly prevail, but in the manufacture of standardised goods by automatic machines there is not much scope for the personal element. It is only a question of time to acquire the needed equipment and skill.

8 *Written Evidence*, p. 351.

9 *Europe's Crisis*, by Andre Siegfrid, p. 66.

Moreover another important thing has to be noted. As Hicks points out, inventions are of two types: labour saving and capital saving. Somehow or other it so happened that the inventions of the former type have predominated so far. If capital saving machinery were to be invented it would give advantage to all those countries which possess man-power, as one like the invention of Mr. C. W. Epensen, a Danish Scientist, who claims that he can produce electricity in unlimited quantities from ordinary tap water without the aid of coal, oil, or any other known source of power. Such a source of cheap power will enable us to decentralise production and avoid many of the evils of the present day.

IV

In this discussion on the relative importance of the human element as compared with other external factors, it may appear that I have strayed from my theoretical treatment of the subject. As a matter of fact the tendency to lay greater emphasis on the human element arises from the other fact that the classical economists always discuss equilibrium economics. They do consider the disturbances that are caused to the economic equilibrium from which they start, but they generally come to the conclusion that such disturbances generate forces which would restore the equilibrium back to the original. In the field of international trade this automatic force is to be found in the price-specie flow, adjusting prices and wages. The classical doctrine seems to be more concerned with the problem of the relative share of the gain that is likely to be obtained from international trade. The first proposition in exchange is that both parties stand to gain in every act of exchange, and the more important problem, therefore, is how to apportion this gain. The way in which it is apportioned depends as suggested by Mill on the " Equation of Demand." Taussig suggested an objective measure of such gain: it consists in the high money wages that are obtained in a country. The Classical Economists, in their pursuit of such gain, missed many other important problems arising out of international trade.

As long as international trade was confined to articles of small bulk and high value, as it had been before the development of steam navigation, it did not give rise to any serious disturbances in the economic and social organisation of the trading countries. But with the development of communications, steam navigation and steel ships international trade progressed with amazing

rapidity. This was accompanied by a geographical distribution of production and localisation of industries. As a result of that world is divided into two camps—" the exploiters and the exploited." This is a consequence of the dynamic forces that are brought into play and the ever-accelerating force with which they work. It is these dynamic forces that the Classical Economists failed to study because they always started their discussion from an equilibrium condition and believed that any disturbance caused will generate forces which would restore the equilibrium.

One of the important dynamic effects of international trade, as put by Ohlin, is that it " increases the international differences of factor equipment." International trade through its influence on the prices of the factors of production invariably also affects the supply of them. Ohlin observes:[10] " Inequality in the equipment of productive factors calls forth trade which tends to a large extent to raise the prices of the relatively abundant and cheap factors and to depress the price of the rest. The increased prices of the relatively cheap factors will call forth a still greater quantity of them, although they were already plentifully supplied. The reduced relative prices of the scantily existing factors will probably reduce their quantity. Evidently the outcome is greater unevenness internationally as to the factor equipment and a strengthening of the tendency to trade. In so far as the existing differences in factor supply are increased, the character of trade will remain about the same, but it will be of greater volume. The division of production between the various countries will be carried further."

" Apparently international trade through its tendency to equalise factor prices internationally calls forth supply reactions which lead to greater international inequality in the equipment of labour factors. On the supply side there is a sort of defence against the price equalising tendencies of trade."

V

Let us see how this tendency to greater and greater inequality in factor equipment worked itself out in the case of India. She mainly became an exporter of agricultural commodities and an importer of manufactured goods. Her exports of food-stuffs and raw materials increased to a great extent. The greater demand for agricultural commodities led

10 Ohlin, p. 118 ff.

not only to a geographical distribution of production but also to an extension of cultivation. Population also increased side by side. Geographical distribution of production gave some advantage to the producer for the land was utilised for the best purposes it could be put to. But the extension of cultivation could not have brought any material advantage for such extension must have been towards poorer soils. The extension of irrigation facilities counteracted the tendency to diminishing returns to a certain extent. On the whole what we find in India is that the margin of cultivation has been both extensive and intensive. Such being the case diminishing returns set in. A greater portion of the benefit went to the landlord as rent, though as a result of the increased demand, the tenants and the agricultural labourers also benefited to a certain extent. The increase in the rent was more beneficial to the bigger landlord whose surplus was greater than to the average agriculturist whose holding was small and seventy-five per cent of whose income was spent on food-stuffs. This gave rise to absentee landlordism and the growth of 'Zamindarism' at one end whereas fragmentation and subdivision was going on at the other end. The professional men whose incomes were mostly derived by an exploitation of the agricultural areas invested their savings on land. In this way the internal inequalities were aggravated and this was entirely the outcome of foreign trade.

With the increase in the internal inequalities the exportable surplus increases and this gives always a false indication of prosperity. It is not always safe to compare the degree of economic prosperity by comparing the export and import figures of different periods. I think even a decade's interval will show that internal differences are great enough to vitiate such a comparison.

Moreover the cyclical fluctuations in industry and trade affect more seriously agricultural countries. With the fall in the demand there will be a precipitate fall in agricultural prices and it is not possible to reduce the extent of cultivation. As already remarked the margin of cultivation in India is both extensive and intensive. To the extent that it is intensive some reduction can be made, but on the whole agriculture suffers from extreme inelasticity of supply.

It is not necessary to describe how foreign trade affected our handicrafts and industries. Trade changes the quality of labour and capital. "International trade changes the fundamental facts of economic life in trading nations, and cannot fail to affect in a thousand and one ways the factors governing the

output of labour and capital."[11] Foreign trade has completely upset the economic equilibrium of the country.

Let us look at the other side of the picture: the changes in the factor equipment of those countries from whom we are importing. There it gave rise to large-scale production—production *en masse*. In the words of John H. William " England provides us today with the best illustration of the ultimate logical effects of international trade upon national economic organisation. Through specialization in production for world markets, fostered by export of capital and labour from early Colonial times down to the late war, and by a free trade policy, she has been able to concentrate capital and labour on a small amount of land in " increasing return " industries and to buy the products of increasing cost industries from abroad." By such specialization she has achieved, of course, enormous advantages of territorial division of labour, but in so doing she has no less clearly committed herself to a particular organisation of her productive effort."[12]

International trade has provided wonderful opportunities for specialization and large-scale production which gave large scope to economies, internal and external. The tendency for increasing returns will naturally lower the cost of production per unit and therefore it is no loss to the manufacturing countries if there is a fall in the secular trend of the price level of manufactured commodities. Throughout the nineteenth century, whether prices were rising or falling, real wages in England were rising because of the Industrial Revolution which took place earlier in Great Britain and of the tremendous increase in international trade.[13]

A mere comparison of the export and import prices will, therefore, not tell the whole tale. The supply conditions, the volume of production, the proportion of internal trade to external trade, the changes that are brought about in the factor equipment—all these have to be taken into consideration before we can judge the beneficial effects or otherwise of international trade. To come to the conclusion by a mere comparison of the export and import prices that the barter terms of trade are tending to become more favourable or unfavourable is to ignore other important problems. The growth of large-scale production and

11 Ohlin, p. 125.

12 *Economic Journal*, p. 204 1929).

13 Wages between 1900—1914 were more or less stationary. Knowles : *Industrial and Commercial Revolutions*, p. 168.

specialization gives immense scope for the springing up of external economies because of the concentration of production. But in agriculture the creation of such external economies is very difficult because of the widespread nature of agricultural production. In our country the financing of the foreign trade of the country, both export and import trade, is in the hands of foreign bankers and financiers. There are purchasing combines as in the case of groundnut, etc. They almost control prices; they can make and unmake them. There is always a large spread between the harvest prices and market prices in the distributing centres of trade. For want of a proper marketing organisation, this spread is greatly absorbed by the middlemen and foreign financiers. In industrially advanced countries the external economies are generated automatically with the increase in the scale and volume of production, whereas in agriculture they have to be deliberately created by cooperative effort. Denmark has become more or less a classic example for the creation of such external economies in marketing by her co-operative organisation. Agricultural countries are generally under a disadvantage as regards the enjoyment of the external economies of production and distribution. There are difficulties peculiar to agriculture in marketing. In industry it is very easy to produce a standardised commodity, whereas in agriculture it is always difficult to maintain the quality of the product. Margin has always to be allowed for the inconstancies of nature, whereas in industry these' are produced with mechanical precision. There is not much scope for variety in agriculture as in industry. The demand for raw products is a derived demand and hence it is very difficult for the agriculturist to extend his markets as the industrialist does by cultivating the tastes of people for new varieties of commodities produced more or less with the same stuff but with different get-up. The agriculturist has always to maintain his market by maintaining the quality of his products. He cannot puff up his goods. All this is meant to show that as for economies of production and distribution agriculture stands on a different footing from industry. Unfettered international trade has brought about this drastic change in the economic organisation of the country upsetting the entire equilibrium of the people.

In my first quotation from Taussig it is observed that the existing situation is not at all the necessary outcome from the given conditions but only one among several possibilities. But I do not see what other possibilities are likely to ensue from the given conditions. One of the important conditions is free

unfettered trade between India and Great Britain. There may be an increase in the demand for the raw products and there may be a consequent rise in the price of her exportable commodities; the gain will not be substantial for the above-mentioned causes and will not be lasting because it is always caught in the trade cycle. Moreover, as has already been observed foreign trade brings about such changes in the factor equipment that the inequalities within the nation and between different nations are accentuated in an ever-increasing crescendo and bring about their own nemesis in the end. I agree with Taussig that a high money wage is the objective test of the relative advantage that accrues from foreign trade, but I do not agree with him when he says that there is a likelihood of the Indian wage earner enjoying as high an income as the English wage earner under the given conditions.

VI

Before there can be any improvement in the wages of the Indian worker, this inequality in the factor equipment should be removed. There must be a balance between agriculture and industry: both should be developed so as to be complementary to each other.

It is not necessary for me to discuss the various ways by means of which industries may be encouraged. I would like to refer to one aspect of the tariff problem. In arguments against protection it is said that there would be a diversion of capital and labour from the production of export industries to the protected ones. This argument will hold good only when all the available liquid capital and labour resources are fully employed, before the adoption of the policy of protection. It is a well-known fact that the pressure of population on land is very great in our country. The presence of very cheap labour is greatly standing in our way of introducing improved and mechanised methods of production. Unless this excess is drawn off to industries it is not possible to change our agricultural technique. Industrial and agricultural revolution must go hand in hand. We believed that our agricultural industry was our stronghold, but the way in which it has to be protected, of late, shows that we have been hitherto in a fool's paradise. We are at present assailed on all sides. Our agriculture and industries both need protection. If we allow things to take their own course, the standard of life which is at the subsistence level has to go down still further which means the appearance of positive checks on the growth of population. Australian wheat can be shipped to

Calcutta and sold cheaper than Lyallpur wheat from the Punjab. Similar is the case with rice. These are our export commodities and if they are threatened by foreign imports one of two things should happen: wages must fall or the extent of cultivation must be reduced. Even in the second case, ultimately wages must fall. Applying Taussig's dictum that wages in the export industries lay down more or less the ruling wages in other industries, we have to expect an all-round reduction in the wage level, at least in all those which do not belong to the non-competing groups. It may so happen that these commodities may pass out of the list of exports. Even then Taussig's observation holds good; only it has to be modified a little. For ' exporting industry ' we have to substitute ' staple or major industry ' and I think Ohlin's objection to Taussig's export wage proposition is answered.

When an industry is encouraged by means of protection it need not divert labour which is already employed. It creates fresh employment for all those who are underemployed or unemployed. Similar is the case with capital.

Capital may be uninvested or ill-invested or overinvested in particular lines. As already observed capital is overinvested on land during the period of high agricultural prices. As there are no other safe avenues for the employment of capital it is invested in usurious loans or land. Both kinds of investment do not in any way materially add to the productive powers of the country.

The investment of savings in gold and silver plate and jewellery is a kind of dead investment. It is so much of capital withdrawn from circulation. Since 1900 up to the present day we have imported Rs. 837 crores net worth of gold and silver, whereas the paid-up capital of joint-stock companies up to 1934 is abous Rs. 200 crores only (of which some is foreign capital). If we had invested a third of our gold and silver imports in industrial concerns we would have had double the industrial equipment of the present day. Perhaps the people are not to be entirely blamed for this. Of course their social customs do demand an investment of that kind and taking each individual separately it is not, perhaps, a cognizable amount. But people's preference for the precious metals to other sorts of investment might be due to various causes. The currency system is to a certain extent responsible for the people's preference for gold and silver. If the currency had been directly linked to gold and if they had been handling gold as a matter of course, they would not be so anxious to possess it. Want of opportunities for safe investment is a strong cause for such dead investment. Even

though it is a dead investment it has stood them in good stead during the great depression.

Resuming my thread of argument, the encouragement of an industry by means of protection need not be at the expense of another. There need be no diversion of capital or labour. Protection is one of the ways by means of which you can harness the whole of the effective population and the material resources of the country to productive enterprise. The productive capacity of a country as observed by Ohlin depends upon the quantity of the factors of production that cooperate with every unit of labour. A good test for the success or otherwise of a policy of protection is a measure of these factors of production. (A more practical measure is the index of production itself.)

Unfettered free trade brings about inequality in factor equipment which may ultimately lead to disaster to both the groups of countries. Andre Siegfrid in his book on " Europe's Crisis " has very beautifully dealt with this problem. In one place he observes[14] " the first thing to be considered is the economic age of countries and continents. A country is mature or even old when its population and its equipment have been developed beyond the resources of its territory; it is young so long as its resources are greater than its needs." In his opinion European countries have grown old especially Great Britain because it is mostly Great Britain that has developed beyond her resources. She has a huge import surplus corresponding to our export surplus. The " invisible " items are playing a large part in her trade balance. " The ' invisible ' people are getting the business. We may feel that it would be better for twelve men to be engaged in making boots for export rather than that one insurance broker should be making £5000 per year on foreign business." The author observes " If ' services ' are destined to replace exports to a certain extent, with a corresponding shrinkage in exports, then dangerous social consequences are to be feared until the Old Continent has accustomed itself to these new conditions."[15]

We, therefore, see that the inequalities in factor equipment give rise in the long run to serious consequences. Unless these inequalities are reduced by a proper control and regulation of the productive factors so as to check a lop-sided development, and unless international trade is put more or less on an equal footing, the inequalities in the wage levels cannot be reduced, and international trade released from unnecessary fetters.

14 *Europe's Crisis*, p. 106.

15 *Ibid.*, p. 120.

FINANCIAL PROSPECTS OF THE NEW CONSTITUTION

BY

P. J. THOMAS, M.A., B.LITT., D.PHIL.

Revenue Position.

The condition of Indian finances to-day is not such as to make any one very optimistic. Customs duties which have in recent years supplied nearly 65 per cent of the Central Government's revenue are by no means a stable source. Import duties are the mainstay of the customs revenue. Of the imports, sugar and cotton piece-goods brought in the largest revenue in the past, but the adoption of a protective tariff has cut down revenue under both these heads. Sugar brought in Rs. 10·68 crores even as late as 1930-31, but produced only Rs. 3·75 crores in 1934-35 and the budget estimate for the current year is only Rs. 1·75 crores. Cotton goods which brought in Rs. 7·7 crores in 1924-25, produced Rs. 4·46 crores in 1933-34. Matches were responsible for Rs. 1·03 crores in 1921-22, but to-day this hardly figures in the import revenue. In spite of such radical fall in imports, customs revenue is still maintained at about Rs. 51 crores, but we must remember that this is due to the increase of rates and the emergency surcharges levied since 1931. The extent of the new burdens placed on imports can be seen from the fact that whereas in 1929-30, a revenue of Rs. 41 crores was raised on imports valued at Rs. 234 crores, the same amount of revenue was raised in 1932-33 when imports had fallen to Rs. 129 crores. The surcharges are but temporary and will have to be removed sooner or later. Further, an enquiry into the present system of revenúe tariff is contemplated, and such an enquiry may result in a fall of rates. Although in some cases the fall in rate may be accompanied by an increase in revenue, that may not be the case in regard to many items.

As for export duties, a part has already been assigned to the jute-growing provinces, and another part will be lost when Burma is separated. We must also remember in this connection that countries in Europe are working towards self-sufficiency, and the future, at least the immediate future, of world trade looks gloomy. Nor are there any sure signs yet of a revival of prices.

In these circumstances, it would be hazardous to build hopes on the customs revenue being maintained at the present high level. Nor is such heavy indirect taxation defensible in theory, seeing that the burden of it is unequally distributed. High protectionism is in fashion in America and elsewhere. India is also launching on the same course. Protection is a double-edged sword; if it is successful, the customs revenue will be lost, and if it is not, the consumer will have to bear the burden. There is a view that the loss in customs revenue resulting from protection can be made good by imposing excise duties, but it is no easy task to raise an adequate excise revenue from a nascent industry, and for some time at any rate, the excise duty will remain inadequate for filling up the gap. The sugar excise duty is estimated to produce a revenue of Rs. 1·50 crores, but the loss of revenue that has resulted from protection is as much as Rs. 9 crores (as compared with 1930-31).

Income-tax revenue has been keeping up, in spite of the depression, but there would have been a fall, had not rates been put up and surcharges imposed in 1931. Incomes below Rs. 2,000 were also brought within the scope of the tax. The profits of companies assessed to income-tax fell from Rs. 53 crores (average of 10 years ending March 1930) to Rs. 29 crores in 1932-33, and a corresponding fall must have occurred in personal incomes as well. Nevertheless, the total revenue under income-tax showed an increase from Rs. 16·6 crores (average of five years ending March 1930) to nearly Rs. 18 crores in 1932-33. No doubt, when business recovers, incomes assessable will increase again, and income-tax revenue will go up, even if the surcharges are removed; but by then the proceeds of the tax will have also to be shared between the Central Government and the provinces. The time and the nature of such assignment have not been fixed, but the provinces will make every effort to secure for themselves as large a slice as is available at as early a date as possible.

It is true that during the first half of the current financial year, both customs and income-tax have recorded a slight improvement on the estimates of March last, but no conclusions can yet be made about the outturn for the whole year. If such improvement takes place, the surcharges imposed in 1931-32 will have to be reduced if not altogther removed, as they (especially those on customs) are regarded as a heavy burden on industry and commerce. Large inroads would be made in income-tax and customs revenues, if the surcharges of 1931 are removed.

The breakdown of non-tax revenue has been the most serious financial result of the trade depression. Under various heads,—railway contribution, opium sales, provincial contributions, etc., —the Government of India had been receiving large sums before 1927, but most of them have steeply declined and some have altogether disappeared. The revenue from these items fell from Rs. 30·45 crores in 1923-24 to Rs. 5·77 crores in 1933-34.

ITEMS.	*Non-Tax Revenue in the years* (in crores of Rs.) 1923-24.	1929-30.	1933-34.
Net revenue from commercial departments (chiefly railways) ..	8·97	5·24	—·56
Net revenue from opium ..	1·66	2·55	·88
Net revenue from currency and mint..	2·14	2·00	·74
Interest receipts	3·16	4·40	1·63
Extraordinary receipts	2·60	1·89	·36
Other revenues	2·72	3·38	2·72
Provincial contributions.. ..	9·20	..	..
TOTAL ..	30·45	19·46	5·77

Railways perhaps tell the most pitiable tale. This source of non-tax revenue which besides paying its way contributed handsomely to the general revenue has lately been accumulating deficits, amounting in four years (1931-32 to 1934-35) to Rs. 32 crores. The actual position seems to be even more disquieting, and it would appear that if a proper accounting system had been adopted and items legitimately chargeable to revenue had been charged to revenue and not to capital as now, the deficit would have been found to be even higher. For the current year, the estimated deficit is only Rs. 2 crores, but judging from the actuals of the first few months, the deficit may be larger unless considerable improvement takes place in the remaining months of the year. The Percy Committee estimated the revenue from railways at Rs. 5 crores annually, but in order to have such a surplus, the gross traffic receipts from railways must reach the figure of Rs. 113 crores. Even in 1928-29 such receipts amounted only to Rs. 103¾ crores. Indeed an economic recovery in India will increase railway earnings, but world conditions give no immediate prospect of any pronounced recovery. Further, the competition between roads and railways which has greatly

affected railway earnings may increase rather than diminish, since it is in the interest of the provincial governments which control road transport to maximize the revenue from that source.

Salt has been a steady source of revenue in the past, and the budget estimate for 1935-36 under that item is Rs. 8·73 crores, which is Rs. 2 crores more than the Percy Committee's forecast. It is suspected that this increase is due to some temporary influences, and further a strong political party in the country is intent upon reducing this tax radically and would even like to see it abolished. With the Damocles' sword hanging on it, how can Government rest assured that the large revenue from salt will continue to come in?

The foregoing survey has perhaps brought it out that, although it is repeatedly said that the Government of India has most of the elastic sources of revenue, various circumstances have made nearly all those sources rather unreliable, and any immediate increase of central revenue is unlikely.

The Expenditure Position.

But while revenue is shrinking, expenditure is on the increase. Apart from the existing expenses, Rs. 75 lakhs will be required for enlarging the central legislature and Rs. 1·05 crores for subventions to the new Provinces of Sind and Orissa (Rs. 75 lakhs + Rs. 30 lakhs). Further, the separation of Burma may reduce Indian revenue by Rs. 3 crores. Thus expenditure in 1936-37 may increase by about Rs. 1·80 crores and revenue may diminish by Rs. 3 crores, and assuming that revenue and expenditure remain as now, there may be a deficit of about Rs. 4·80 crores. The position may be as below:

Expenditure (crores of Rs.)		Revenue (crores of Rs.)	
1935-36 Estimate ..	77·22	1935-36 Estimate ..	77·28
+ additional expenditure	1·80	Loss by separation of Burma	3·00
		Total Revenue ..	74·28
		Deficit ..	4·74
TOTAL ..	79·02	TOTAL ..	79·02

But the above assumptions may prove too optimistic. The estimate of Rs. 1·80 crores for the inauguration of federation takes into account only the principal items. When constitutional

reforms are put into operation in a country like India, expenses are liable to be underestimated, and this must be particularly so when (as now) a substantial transfer of power is made from a system of government controlled by officials to one progressively controlled by a people who have been for long feeling the need for a more liberal expenditure on social services. The new status that India is entering upon will create new needs, whether essential or ornamental, and such needs cannot all be estimated beforehand.

There are also other factors which may upset our estimate of expenditure. Two devastating earthquakes in two successive years have upset the Finance Member's calculations. The Quetta earthquake (1935) must have cost Government at least Rs. 1 crore. Similarly, certain fortuitous circumstances which have been helpful in the past may not continue to help. In the last four years, when the finances of Government were exposed to a severe strain, the copious exports of gold from India came to their rescue by maintaining the rupee exchange and by enabling Government to meet its dues in London. Already gold worth about Rs. 250 crores has gone out, and it is too much to expect that gold exports will remain for long at their present level. If they cease or fall off rapidly, and if in the meantime the balance of trade in India's favour has not improved, the Finance Member will have a very difficult problem to face.

Scope for Retrenchment.

It is generally believed that there is still considerable room for retrenchment in the Central expenditure. There is the standing complaint about military charges; then, there is the popular view that the Central Government will have fewer functions in future and that its needs must therefore be limited.

This latter view is now widely held; but to my mind it is against the whole trend of development in federal constitutions. In the old days when transport was slow and economic life functioned in narrow spheres, defence was the only function of a federal government. But to-day economic life is functioning on a world scale, and each country is compelled to have a well coordinated economic policy. Politically, State autonomy may be a desirable thing, but economically it might lead to most injurious consequences as is evident from recent happenings in Australia and elsewhere. Most federal constitutions have taken account of this change in economic life and the scope of federal government has widened and its expenditure has largely increased in respect of functions primarily regarded as provincial, *viz.*,

education, public health, agriculture, industries and economic development generally. President Roosevelt discovered to his cost what a stumbling block State autonomy is to the economic advancement of the U.S.A. and there is a general desire in that country for a radical change in this respect.

India can benefit by what other countries have learnt by bitter experience. We must avoid the evils of a rigid federal structure—double taxation, overlapping tax jurisdictions, duplication of administrative machinery, multiplicity of tax formulas and forms, and inequality of fiscal arrangements.[1] In many ways the financial arrangements we are adopting may be an improvement on those of other federations. We must also recognize that the best interests of the nation are served by the federal government regulating and co-ordinating economic activities throughout the country. In commerce, the Centre has an important function to fulfil, and it may be a costly one too, as international trade is now becoming more and more subject to agreements and manipulations. In industry, and even in agriculture, not only research but a careful co-ordination of provincial activities must be undertaken by the Central Government. The same is true of education and public health. No doubt the Provincial Governments will have to bear the main burden of the nation-building services, and provincial expenditure will have to increase largely; but let us not forget that the Centre will have also to discharge some important functions in respect of them and that at least its present resources will be required for the purpose. Not only will Federal aid be necessary, especially to those Provinces 'where the available sources of revenue are never likely to be sufficient to meet any reasonable standard of expenditure,'[2] but the Federal Government will have also to incur additional expenditure on the regulation of external commerce, banking, shipping and certain industries, on agricultural and industrial research, and on marketing organisations. When the circumstances within and outside India are calling for a unified economic policy in this country, it would be fatal to curtail the scope of the Central Government's activities.

It is true that India's defence expenditure has been maintained at too high a level. Sir Walter Layton estimated it at 31½ per cent of the total central and provincial expenditure; although the proportion must have fallen since, owing to the recent cuts in military charges, India's defence expenditure is still high, in

1 Adarkar, *Principles and Problems of Federal Finance*, p. 68.
2 Report of the Joint Select Committee, p. 161.

comparison with its civil charges, which are rather low. The disparity between military and civil charges in India is indeed striking. But it may be said that in defence the thing that matters is that you must keep up your armaments on the scale adopted by your neighbours and possible enemies. India is like a man who in the insecure times of old had to have a wall of hard stone although he lived in a mud-house himself. If his means improved, his house would be better built, but he would not be wise in taking away the stone wall till his neighbours took off theirs. India's defences have to be strong until disarmament becomes a reality.

We may remember in this connection that since the World War, considerable economies have been effected in defence expenditure. It fell from about Rs. 70 crores in 1921-22 to Rs. 55·10 crores in 1929-30, and although it was then stabilized at that amount the depression called for emergency economies and the expenditure last year (1934-35) came to Rs. 44·38 crores. A cut of about 11 crores in four years is no small achievement, although it was partly due to the diminished cost of stores. The Finance Member has warned the Assembly that 'the large reduction of defence expenditure in recent years had been secured to some extent by emergency measures of a temporary character,' and that the new figure 'could not be regarded as representing a new permanent level of defence expenditure.'[3] When prices rise again, the expenditure may also increase. Even assuming that new ways of economising might be discovered in future, will not the savings be absorbed in aerial and naval defences? In the present state of things, one cannot build much hope on any great fall of defence expenditure in the near future. When India obtains a higher political status, the burdens of defence may increase rather than diminish.

Prospects.

Taking all these circumstances into account, one fears that the Central Government needs all its present revenue, and more, if it is to function properly. Hopes are entertained in certain quarters that a substantial part of the income-tax revenue will soon be assigned to the provinces, but in the light of the situation sketched above, one cannot see how this hope can be fulfilled in the immediate future. On every ground, it is essential that the Central Government should have a strong financial position when inaugurating the Reforms.

3 *Budget Statements for 1934-35 and for 1935-36.*

No doubt the provinces are in a bad way. Some of them have inadequate resources, and most of them have had unbalanced budgets recently. The *per capita* expenditure on education and public health in the thickly populated provinces of Bengal and Behar is deplorably low, and must be raised. Great expectations have been held out to the people in regard to nation-building services and these expectations will have to be fulfilled in some measure. It is certainly in the interest of the country that provincial resources should increase. The Central Government has lately made a generous gesture by making a grant to the Provinces for rural development. The Provinces would perhaps prefer an assignment from income-tax revenue to a grant, but the amount of such assignment cannot be large for some years. New resources will have to be tapped. Some of the resources (*e.g.*, income-tax on agricultural incomes) can be tapped directly by the provincial governments, but others (*e.g.*, death duties, terminal taxes) must be levied by the Central Government although the revenues will be handed over to the Provinces. The Central Government can also benefit by imposing surcharges or *centimes additionnels* on such levies. This step will soon become necessary both for the Centre and the Provinces.

The burden of taxation is fairly high in India, but it may not be so high as in many advanced countries. We have not got the statistical material necessary for an accurate estimate of the burden, but it has been computed that the ratio of total taxation to national income is higher in the U.S.A., Great Britain and even Japan.[4] India is indeed a poor country, but, as Layton says, ' it is at the same time a country in which there are large accumulations of wealth on which the burden of Government rests very lightly.' Land revenue may yield more, if it is attuned to the principle of ability. Nor are there death duties. Commodities of common use like tobacco, on which much revenue is raised in Europe, are still untaxed or lightly taxed in India. Social ceremonies (like marriages) deserve to be taxed, on every

4 The percentage of national income (central, provincial and local) taken as taxation in different countries has been estimated as follows by Prof. Findlay Shirras, *Poverty and Kindred Economic Problems*, pp. 48-49. The estimates may not be quite accurate, but they are adequate for purposes of comparison.

United Kingdom	...	...	(1929-30)	22·2 per cent.
France	...	...	(1928)	20·9 ,,
Germany	...	...	(1925)	20·1 ,,
U.S.A.	...	...	(1928)	10·7 ,,
Japan	...	...	(1925)	12·8 ,,
Canada	...	...	(1927)	9·5 ,,
Australia	...	...	(1924)	13·3 ,,
India	...	...	(1929-30)	5·9 ,,

ground. Increase of taxation had been hitherto unpopular because it was felt that the revenue was not properly spent, but now that provincial autonomy is becoming a fact, the public must be in a position to control expenditure more effectively. The country is calling for more roads and schools, clean water to drink and sure water supply for the fields; and expenditure on these items will be productive in every sense of the word. In the present state of the country, wise public expenditure is the royal road to increased economic welfare and to greater social harmony. As Layton has pointed out, 'taxation may be the only practicable means of creating a better and more secure livelihood.'[5] Such taxation will not reduce the income of the people but will increase it; it will enhance production and not diminish it.

Although the economic depression has diminished money incomes, production has not fallen, but has increased. As I showed in a paper submitted to the Economic Conference last year, even in the period 1920—31 during which population increased in an unprecedented degree (about 11 per cent), agricultural production increased by 16 per cent and industrial production (as indicated by ten organised industries) increased by 51 per cent. Since 1929, production has diminished in most countries, but in India agricultural production has been maintained, and industrial production increased by 44 per cent (between 1928-29 and 1934-35). The only other country which recorded similar progress during the period was Japan (45 per cent). In Great Britain, the increase was only 6½ per cent, and in France, Germany and U.S.A., there was a decline of about 25, 15 and 20 per cent respectively.

Some details of Indian industrial production will be interesting in this connection. In 1900, hardly 500 million yards of cotton piece-goods were produced in India; in 1934-35, the amount produced was 3,400 million yards; hardly any pig-iron was made in 1900; in 1934-35, 1,343,000 tons of pig-iron and 834,000 tons of steel were made in the country. Even more striking progress was made in sugar and cement. In 1928-29, only 99,000 tons of sugar was produced in India; in 1934-35, in spite of the destruction of many mills in Behar, production amounted to 637,000 tons. Thus, sugar production has increased six-fold in six years.

These are the bases of India's real income and taxable capacity. When production increases, the outturn of existing

5 *Simon Commission Report*, Vol. II, p. 208.

revenues must increase, and a larger taxable capacity will be generated. With better employment, there will be greater demand for goods, mostly goods produced at home; and therefore trade and economic activity in general will increase. On the whole, the Provincial Governments derive greater benefits from increased production than the Central Government. Customs will have a temporary benefit by the increased importation of machinery, but will be adversely affected when imports fall off in consequence, as has happened in sugar and cotton piece-goods. Income-tax will increase, but not immediately, and by the time it increases, a substantial assignment will have to be made to the Provinces. Railways will benefit, but roads are a formidable competitor and increased road traffic will benefit the Province chiefly. Stamps, registration fees, etc., will increase and enhance provincial revenue; even the provincial liquor excise will swell when new factories arise in a region; and land revenue collection will become easier.

The whole trend of economic development to-day is in the province's favour. When economic internationalism functioned, India was linked to it as a primary producer and as a steady consumer of textiles and iron goods; but to-day, with the growth of economic self-sufficiency in most countries, India's position in world economy is undergoing a radical change. The demand for India's primary products abroad has weakened; and India's demand for cloth, sugar, iron goods and other ordinary commodities from outside has also greatly fallen off. In the days when foreign trade loomed large, customs revenue had a wide scope, but when machinery and a few luxury goods become the principal lines of import trade, the scope for levying import duties will naturally narrow down. Indeed the Central Government can impose excises, but it will take time and when they increase, the provinces will have also a share in it. Thus, while the industrial development of India depends very largely on Central policy and direction, the chief beneficiaries of industrial progress will be the Provinces and the effect on Central revenue will be largely adverse. In these circumstances, the self-interest of the Provinces requires them to see that the Central Government's finances are strengthened and not weakened; for thereby they will pave the way for the plentiful increase of their own resources in future.

To conclude: The unsteadiness of tax-revenues, especially customs duties, the failure of non-tax revenues and the uncertainty of gold exports have made the financial position of the Government of India far from prosperous and have aroused pessimistic

views about the prospects of inaugurating the Reforms. This may make it difficult for the Central Government to make any large assignments of its revenue to the Provinces, as was expected when the Peel and Percy Committees made their forecasts. Most of the Provinces have deficit budgets and the whole country is looking forward to an increase of expenditure on nation-building services; but it is too much to expect that the resources needed will come to any great extent from the existing revenues of the Central Government. India's credit depends largely on the financial position of the Central Government, and at a time like the present when the Reserve Bank is just beginning to function and when important constitutional reforms are contemplated, it is essential that its financial position should be strong. Whatever the Central Government can spare may be given to the Provinces in the form of assignments from the income-tax revenue, but these cannot be large and will have to be supplemented by fresh taxation. The striking increase of production in India even in a period of unexampled depression gives one the hope that fresh taxable capacity is being created and that it could be safely tapped in the near future.

FEDERAL FINANCE AND THE FUTURE OF RAILWAY CONTRIBUTIONS

BY

L. A. NATESAN, M.A., B.L.,

Professor of Economics, The Scottish Church College, Calcutta.

I

The Government of India Act 1935, which was passed by the Parliament last summer, has made the accomplishment of the Federation a matter of a few months. With the financial difficulties experienced for several years immediately after the introduction of the last Reforms, the need to consider the financial aspects of the working of the new Constitution hardly needs repetition. The Joint Parliamentary Committee investigated the additional cost of the new Constitution and the losses to the Central revenues by the Separation of Burma; and we are shortly having Sir Otto Niemeyer's Enquiry. It seems to me that the future of Railway Contributions to the Indian Exchequer has not attracted sufficient attention, and I propose to examine in this paper certain aspects of Railway Finance which have a bearing on the finances of the Federation. The impending constitutional changes involving the constitution of an independent Statutory Authority are bound to affect the relation of Railway to General Finance. The magnitude of the gross receipts and expenditure is not easily realised. The Railway interest charges alone amount to a fourth of the Budget of the Government of India; and if that item were excluded from the Central Budget, the Railway Budget easily exceeds the former and dominates the picture.

Since the beginning of the present century the Indian Railways have provided such steady surpluses to the General Revenues of the country that they may well be placed in the category of an important source of our public income. Taking the first quarter of the century the years in which the railways have failed to make a return have been only two, namely, 1908 and 1921. The next decade was one of unusual prosperity. It is only during the depression years commencing from 1931-32 that the railways failed to make the contribution to the General revenues. The situation has not improved since and during

the succeeding four years the contributions have remained unpaid.

To gain a correct perspective, it would be necessary to refer briefly to the developments since the beginning of the present century. Starting from 1905-6, the net gain to the State after deducting interest and other indirect charges worked out during the quinquennium at the rate of Rs. 2·39 crores a year. During the next two periods, 1911—15 and 1916—20 the return to the State increased on an annual average of Rs. 5·27 crores and Rs. 11·48 crores respectively. The substantial rates of return to the General Revenues had by 1919-20 become a regular feature of the Budget of the Government of India. Generally speaking, therefore, the Finance Member had since 1900 always budgeted for a considerable contribution from the railway net revenues towards the general expenses of Government. When the new financial arrangements necessitated by the Montford Reforms were under consideration, it was definitely assumed that the Central Government would derive a substantial net revenue (after paying interest charges) from railways and the Meston Committee assumed a contribution of no less than Rs. 10¾ crores. The Railway Finance Committee, in the middle of December 1921, concentrating their attention on the practical aspects of the question expressed their definite opinion that in the existing state of India's finances, it would be impracticable to replace this source of revenue (from railway net revenues) if surrendered for railway purposes. The collapse of railway earnings in 1920-21 led to an increase in rates and fares and the imposition of a surcharge to secure additional revenue to the General revenues of the country. The position from 1920-21 to 1924-25 was as follows:—

Railway Surplus to General Revenues.

	In crores of rupees :
1920-21	5·64
1921-22	9·10
1922-23	1·17
1923-24	1·21

The East India Railway and the Railway Finance Committees alike had recommended the separation of the Railway, from the Central Budget. The latter had suggested taking up the question, when conditions became normal and financial

equilibrium was re-established. The Retrenchment Committee of 1922-23 emphasised the need to ensure a return of 5½ per cent on the railways; and the Railway Board re-opened the question of the separation of the Budgets in 1923. Due to certain constitutional difficulties, a Convention was agreed to in a Resolution adopted by the Legislative Assembly on September 20, 1924, to separate Railway, from General Finances. As this Convention regulated the relations of Railway Finance to the General Finance, attention may be drawn to such of its terms as have a definite bearing on the present enquiry.

First of all, a definite railway contribution to the General Revenues calculated on the capital at charge and working results of commercial lines, equal to one per cent on the State capital on Commercial lines, at the end of the penultimate financial year *plus* one-fifth of any surplus profits remaining after payment of this fixed return; this Contribution was made the first charge on the net railway receipts. Secondly, it was added that, should the Railways fail in any year to pay the contribution, the net receipts would be assumed not to have accrued in the subsequent years until such deficiency had been made good. Thirdly, the interest on the capital of, and the loss on, the Strategic railways were to be borne by the General revenues and, therefore, were deducted from the Contribution. Fourthly, another feature was the accumulation of a Railway Reserve Fund from the surplus profits left after the payment of the Contribution to secure the payment of annual contribution to provide for arrears of depreciation, writing down and writing off capital and to strengthen the financial position of railways to improve the services to the public and reduce rates. Fifthly, it was also provided that, should the net surplus exceed Rs. 3 crores in any year, the Reserve is to get credit for only two-thirds, the balance accruing to General Revenues.

II

The reference to the detailed summary of the arrangements brought into effect according to the Resolution is justified on the ground that they represent the governing principles of Railway Finance since 1924. It will be noticed that the provisions laid down before separation was effected took all possible measures to secure to the State the maximum advantage in participating in the surplus profits. Turning now to the actual working of the Convention, we find that the period since 1924 covers a series of years of a high level of prosperity and years of profound economic gloom. It is, therefore, desirable to divide into two

periods 1924-25 to 1929-30 and 1930-31 to 1934-35 for our examination. The relevant figures pertaining to the railway net revenue and the deductions therefrom according to the Convention are presented in the following table:—

TABLE I.—Statement of Net Revenue and deduction therefrom on account of Interest, Contribution, and Reserve since 1924-25.

	Net Traffic Receipts.	Net Revenue.	Interest Charges.	Surplus of Deficits.	Contribution.	Net Surplus transferred to Reserve.
1924-25	38'13	37'06	23'90	13'16	6'78	6'38
1925-26	35'28	34'09	24'81	9'28	5'49	3'79
1926-27	34'64	33'37	25'87	7'50	6'01	1'49
1927-28	38'99	38'12	27'27	10'85	6'28	4'57
1928-29	37'51	37'14	29'33	7'81	5'23	2'58
1929-30	34'52	34'50	30'46	4'04	6'12	−2'08
1930-31	27'64	27'53	32'72	−5'19	5'74	−10'93
1931-32	23'86	23'87	33'07	−9'20	S	−4'95
1932-33	21'58	22'68	32'91	−10'23	S	&
1933-34	23'57	24'62	32'58	−7'96	S	&
1934-35*	26'92	27'60	31-84	−4'24	S	&
1935-36†	29'07	29'07	31'69	−1'90	S	&

A few words may be offered as regards the terms used in the table. Net traffic receipts are taken to mean the difference between gross traffic receipts and working expenses including depreciation. Net revenue is then ascertained after making allowance for certain miscellaneous receipts and charges. Surplus is the balance of net revenue after the payment of interest charges and deficit shortage of that balance to cover Interest charges. Net surplus represents the balance left after payment of the contribution to General Revenues.

To take the first period, between 1924-25 to 1929-30 the Indian Railways were on the high tide of prosperity. On an

* Revised Estimates. S—Suspended.

† Budget Estimates. &—No more balances.

average they were earning a Net Revenue of Rs. 35·71 crores. With this earning power they not only paid the Interest Charges at the rate of Rs. 26·94 crores; they paid Contribution to the General Revenues of Rs. 5·97 crores and transferred to the Reserve something like Rs. 2·79 crores every year. Thus the General Revenues received every year during this period of six years on the aggregate Rs. 32·91 crores from the Railway Account.

The next period started with 1930-31. How the impact of the forces of Depression was discovered immediately towards the end of that financial year, how after the Budget for 1931-32 was passed the situation took a serious turn for the worse and how emergency measures of an extraordinary character enforcing salary cuts, block retrenchments and postponements of expenditure were enforced are known to every one. The transportation record provided an unusually accurate barometer of the reduced economic tempo and the Indian Railways recorded a sudden decrease in Net Revenue. As the general characteristics of the last few years betrayed by the railway returns are well known, I need not go beyond recalling the facts which dominated the general financial position. The Interest Charges and the Contribution could be paid for the year 1930-31 only by drawing on the Reserve Fund. The next year the position worsened and the deficit was almost doubled. The Contribution was suspended; and still the transfer of the entire balances of the Reserve Fund proved insufficient to make up the deficiency of the Net Revenue and a temporary loan from the Depreciation Reserve Fund was taken for the first time to pay interest on capital. The situation became still worse in 1932-33, which recorded the largest deficit in the depression period so far experienced and with the total depletion of the Reserve, the Budget was only technically balanced by drawing a loan of the amount of the entire deficit from the Depreciation Reserve Fund. The succeeding years up to the Budget year 1935-36 have been a mere repetition of the same financial adjustments. Since 1931-32, therefore, no contribution has been paid and the Railway Budget has been balanced in a nominal sense only by drawing on the Depreciation Fund.

III

The succession of deficits since 1930-31 has brought matters to a head. The Railways at the present moment stand burdened with the accumulated obligations they avoided during the last five years. According to the Separation Convention of

1924, the future surpluses have, first of all, to make good the temporary loans advanced from the Depreciation Fund and then the suspended Contributions. The temporary loans would amount by the end of the Budget year 1935-36 to Rs. 28·67 crores, or making allowance for the deterioration in receipts not allowed for in the Budget Estimates, approximately Rs. 30 crores. The suspended Contributions would stand at little over Rs. 31 crores. The total liability is, therefore, as at present estimated at the end of 1935-36, Rs. 61 crores. So colossal is the liability that even on the extraordinarily prosperous levels of the first six years after separation, it would need the Net Surpluses of 22 such prosperous years in succession to clear this liability along with the payment of the accruing contributions to General Revenues.

The magnitude of the figures and the impossibility in the present state of railway working and general economic situation, to say anything about the prospect of a return in the near future to the financial prosperity of the earlier years lead one to re-examine the Convention and specially the obligations imposed on the Railways regarding the Contribution to the General Revenues.

The chief condition of the Separation Convention, it should be recalled, is the Contribution to the General Revenues of the country. This is emphasised in four successive sections; and the importance attached to it will be clear from the fact that the first of the objects specified for the Railway Reserve is that of securing the payment of the Contribution. If this arrangement fails, the whole Convention becomes inoperative. The Separation Convention was, of course, not in the nature of a permanent settlement; and it was stated in the Resolution itself that the arrangements carried out in accordance therewith shall be subject to periodic revision but shall be provisionally tried for at least three years. In September 1928, a Committee was appointed by the Legislative Assembly to consider the revision of the Convention. The Committee appointed a sub-committee to consider the specific problems envisaged in the Resolution of 1924. Meanwhile, the Assembly Elections came in, the Committee became *functus officio* on the dissolution of the Assembly, and the Commerce Member announced a postponement of the review of the working of the arrangements, till the constitutional issue was decided. No further action has been taken thereon; and it is unfortunate that the enquiry, which might have been of assistance in yielding valuable data, should thus have been abandoned.

The position as adopted in the new Government of India Act, 1935, is stated in Section 186, Sub-section (3) which states:—

> "Any surpluses on revenue account shown in the Accounts of the Authority (the Statutory Railway Authority) shall be apportioned between the Federation and the Authority in accordance with a scheme to be prepared, and from time to time reviewed by the Federal Government, or until such a scheme has been prepared, in accordance with the principles which immediately before the establishment of the Authority regulated the application of surpluses in railway accounts, and any sum thus apportioned to the Federation under the sub-section shall be transferred accordingly and shall form part of the revenues of the Federation."

The position that obtains at the present time is confirmed in general terms and authority rests with the Federal Government to review and revise the scheme of apportionment from time to time. The present arrangements will continue on the constitution of the Federal Government, if no revised convention is brought into effect before that date. From the reported pronouncement of the present Finance Member to the Indian Chamber at Bombay, it has to be surmised that an attempt is being made to revise the terms of the Convention of 1924.

The prospect of a revision of the Separation Convention naturally brings to the fore certain important problems of significance to the Central Budget. The problems raised at the present time may be broadly stated as follows:—

1. The general question of the Contribution to General, from the Railway, Revenues.
2. The Basis of calculating Surplus Revenue.

The idea underlying the demand for a Contribution from the surplus profits to General Revenues seems to be based on the fact that as the losses of the earlier years had been borne by the tax-payer, the gains of later years should reimburse him. The Acworth Railway Committee in arguing for a separate Railway Budget, and incidentally referring to the liability for interest, observed:

> "Whether the railways should pay precisely this amount (the interest charges) or a larger amount, in

consideration of the expenditure which railways have incurred for non-railway purposes, is a matter for argument. We have no wish to express a positive opinion, though we think that there is much to be said for letting bygones be bygones and fixing the payment of the Government at the same sum that the Government has itself fixed at the present time for interest on the Railway debt. The point is that the Railway Department subject to the general control of Government, once it has met its liability to its creditors, should itself regulate the disposal of the balance, and should be free to devote it to new capital purposes (whether directly or as security for new debt incurred) or to reserves or to dissipate it in the form either of reductions of rates or improvement of services. We have expressed our own view that the only payment by the railway to the General Exchequer should be the interest at a fixed rate on the capital advanced."

The Railway Finance Committee took a different attitude in view of the then state of General Finance and suggested a postponement of the consideration of the proposal. In two years the Railway Department themselves put forward the basis of the present arrangements, namely, a fixed contribution and measures to ensure the continuance of the contribution as a condition of the Railways being granted financial autonomy and separate Budget. The chief difference consisted in the fact that the Railway Department suggested 5/6 of one per cent. on the capital outlay as against the one per cent. decided on.

From this brief review of the considerations which influenced the decision regarding the contribution to the exchequer, two facts emerge, namely, the existence of the feeling that the losses shouldered by the tax-payer in early years of railway development should be indemnified by contributions from railway revenues during their prosperity. The second was the urgent necessities of dislocated public finance which hardly brooked any questions of theoretical niceties to come in at the time of settlement. The Railways were to contribute to the Central Exchequer in the same manner as the Provinces when the contributions were fixed.

Entirely different views may be held on the subject of the desirability of the Contributions themselves. It may be argued, as did the Acworth Railway Committee, that the State ought to

content itself with the payment of the Interest Charges without placing any further burdens on the railway revenues. The claim that the tax-payer deserves some indemnification for the losses borne by him cannot be pushed too far. The tax-payer, who is invoked in the discussions, belongs to an entirely different generation from that which made the sacrifices on Railway account. Further the argument discriminates between the tax-payer as a passenger and user of the railway and the passenger and user of the railway as a tax-payer. The contribution is not unlike taxation on commodities, taking transportation in the sense of a commodity, and the choice between contribution and no contribution would seem to resolve itself into something like some taxation on transportation by rail and some from other sources, or no taxation on transportation by rail and more taxation from other sources. On principle, therefore, taking a broader view of the problem, there is nothing *sacro sanct* about it, except as to the effects of the incidense.

On the other hand, the State might deem itself as an investor and ask for a share in the railway's prosperity, seeing that it had the worst of the bargain since the dawn of the railway age in India to the beginning of the present century. So long as the railways formed one of the many departments of the Government, it is natural to hold this view and appropriate the surplus profits of the railways. But with the demand for freedom from "Government interference and control," sepaiation of the Budgets for ensuring commercial management of the railways and an increasing emphasis on business principles, it is not unreasonable for the Government to insist on its own rights as the provider of railway capital. It must, however, be conceded that this is only a narrow view of the position and that considerations of ultimate economic effects would certainly discriminate in favour of raising public revenues from other sources than from transportation. If Government is for the public good, cheaper communications are also for the public good. One public authority cannot, therefore, assume an attitude that tends to stultify the benefits offered by another.

As the problem of the Contribution itself depends on the strength of the net revenue position and the principles adopted to determine it, the second aspect assumes some significance. The basis of calculation of the surplus revenue also leaves considerable room for divergent views. The present procedure is based on the following formula:

Gross Receipts minus (Working Expenses plus Depreciation plus Interest Charges).

As the Contribution is taken on the realisation of surplus revenue, it is necessary to define what surplus revenue itself is or ought to be. As under the existing arrangements it constitutes the residuary surplus after the deduction from the Gross Revenues of the total of a number of factors, any fluctuations in these factors would automatically affect the balances available for meeting the Contribution. Of these factors included in the total deductions Working Expenses form the total expenditure directly incurred for the provision of transportation. It is not possible to distinguish the two other elements, Interest and Depreciation with equal precision. Any changes in either are bound to affect the surplus revenue which might go up or down. During the last two years, for example, on account of the reduction in the average rate of interest charged by the Government of India on the railway capital, there was a reduction in Interest Charges to the extent of something like a little over a crore of rupees. It might be that in the long run it is advisable for a profitable business concern to gradually wipe off portions of its capital with a view to reducing its own annual liability on account of interest. The adoption of a similar procedure in the matter of railway capital is also bound to reduce the volume of interest. In fact, in view of the unwise capital expenditure on projects during the first six years after Separation, the estimates of the productivity of the new construction and the open line works have had to be put down much lower than even the cost of the capital. Some such amortisation scheme would seem to be necessary in the near future to shake off the incubus of unproductive investment.

A question of greater topical interest is raised by the modifications proposed as regards the basis of calculating depreciation on the wasting assets of the Indian Railways. If either the original arrangements before the institution of the present depreciation fund for the State-managed railways or an adoption once again of the replacement basis of revenue accounting were adopted, Surplus Revenue would be inflated by a reduction in the depreciation charged in each year's accounts. The annual debit to Depreciation is a considerable amount and is about Rs. 13·28 crores of rupees, a little less than one-half of the present Net Revenue. The adequacy of the Depreciation Fund under the existing system was questioned by no less an authority than the late Sir Arthur Dickinson, who found that the

principles applied at present have not allowed for the factor of obsolescence. The Public Accounts Committee in their recent report on the Railway Accounts for 1933-34 found that " ideally the Depreciation Fund ought to be turned into a reserve for renewals and minor improvements and a definite provision for amortisation should be made out of revenue." The former would involve an increased allocation of something like Rs. 2 crores a year to cover expenditure, which is at present wrongly charged to capital, while the latter ought to be something like Rs. 5 crores a year. The effect has been a tendency towards a gradual over-capitalisation because of defective accounting, and what is more, the railways have failed on the whole to show profit even on the present system. It is, therefore, a matter of opinion as to what should on strict principles be the surplus revenue.

IV

The review of the principles involved in the existing arrangements and of the principles of the recent changes has been undertaken with a view to examining carefully the desirability of revising the Separation Convention of 1924 and the extent to which Federal Finance may look to railway revenue for assistance. One should not be wide of the mark in expecting some definite proposals in modification of the Separation Convention. One of the arguments for the contribution, which bulked large in the minds of the Acworth Railway Committee and larger in the minds of the Railway Finance Committee, has lost much of its force at the present moment. It was the dislocation of the General Finances which was responsible for this departure from what was agreed upon as a generous and proper attitude on the part of the State. During the last year or two the General Budget has attained equilibrium, whereas it is the Railway Budget which has been threatening to continue its era of deficits. But for the accumulations in the Depreciation Fund, the serious deterioration in the Railway receipts would have rendered imperative a sort of Contribution from the General Exchequer to meet the Interest Charges on railway account. If the general trends of traffic receipts continue for a few more years at the present rate, that eventuality is not far distant. It is, therefore, a situation exactly the reverse of what was experienced some fourteen years ago. As already mentioned, it would need well-nigh one quarter of a century of a high level of prosperity to make good the existing huge deficiency of Rs. 61 crores. So colossal is this liability, that it will be a regular millstone tied

to the neck of the railways, which is calculated to hold up the payment of further contributions for a number of years, extensions of service or measures of public utility such as reductions in rates and fares, amenities, etc. This fact has to be taken into consideration in arriving at a revised settlement. When Gross Receipts have been insufficient to meet the Interest Charges on the capital outlay, the first attempt should be to develop a Net Revenue adequate for this item. Unfortunately, the present economic outlook is far from cheerful; and the prospect of an upward curve for railway revenues seems for some years at any rate to be exceedingly uncertain. The only other alternative would seem to be further economies from the pursuit of measures recommended but not adopted. The position of the replacement of the loans from the Depreciation Fund amounting to Rs. 30 crores is an entirely different matter. It is accrued depreciation and in the interests of General Finance, it has to stand as a distinct liability to be redeemed out of future Net Revenues. In future the demands on depreciation account are likely to increase due to the absence of any provision for depreciation already accrued before the institution of the Fund and the factor of obsolescence. If the modifications suggested to perfect the present system are adopted, the depreciation charges are likely to increase by about another Rs. 7 crores. This certainly widens the gulf between Net Revenue and Interest charges as they stand at present, and has to be recognised. A method that avoids all these difficulties would be the abolition of the Depreciation Fund and a reversion to the older procedure of meeting the cost of replacing assets out of current revenue as and when they fall due. This would be tantamount to putting back the hands of progress in railway accounting and against the present approved practice all the world over. If the provision for depreciation is reorganised on this basis, the burden on the Net Revenue is increased. An appreciation of all these considerations should enter into any attempt to appraise the prospect of future contributions to the General revenues.

As the problem of the revenues of the Federation awaits settlement at an early date, the facts emerging from the foregoing analysis may be briefly summarised:

1. The Separation Convention has proved a failure in regard to the payment of the Contributions.

2. In view of the further deterioration in traffic receipts during the current year and the present economic outlook, the

prospect of a recovery for some years seems more uncertain than ever.

3. The provision for depreciation on an adequate basis is likely to worsen the Net Revenue position, but must be faced.

4. The Net Revenues are short of what is required to meet the Interest Charges.

5. In view of these facts, the suspended Contributions and the loans from the Depreciation Fund amounting at the end of 1935-36 to Rs. 61 crores constitute so large an amount as to render a cancellation of a part of it at any rate advisable and even certainly inevitable.

6. That a revised Convention settling the relations of Railway to General Finance ought to take into consideration the facts stated above and in the interests of ensuring practical success in working provide for:

(*a*) A cancellation of the suspended Contributions;

(*b*) The retention of the liability in regard to the loans borrowed from the Depreciation Fund to be redeemed out of future net surpluses;

(*c*) The Introduction of fuller depreciation accounting as recommended by the Public Accounts Committee;

(*d*) Enforcing a real balancing of the Budget by further economies, reduction of expenditure and increase of net revenue so as to meet Interest Charges in full;

(*e*) A suspension of further Contribution to the Exchequer till the financial position of the railways improved when the settlement might again be revised.

The conclusion that emerges from a review of the facts analysed in the present paper is that the revenues of the Federation are not likely to receive any contribution from the Railways; that it is better to recognise this fact than to accumulate liabilities on paper; that judging the record of the railways it would not on the whole be unfair to leave the railways

with the burden of the Interest Charges alone, so far as present conditions hold good. This seems to be rather a tame end to the enquiry, but in view of the deceptive impression conveyed by the fat Contributions paid six years ago, it is well to know facts as they are in respect of the relation of Railway to Federal Finance in the immediate future.

ECONOMIC WELFARE UNDER THE NEW INDIAN CONSTITUTION

BY

B. N. KAUL, M.A., PH.D. (LOND.), F.S.S.,

Chairman of the Department of Economics. Aligarh Muslim University.

It is a feature of the literature and the discussions dealing with the constitutional proposals which were finally embodied in the Government of India Act, 1935, that comparatively little attention was given to economic matters. Some specific economic questions like commercial discrimination, establishment of the Reserve Bank and the statutory Railway Authority and financial arrangements between the Federation and the federating units were no doubt discussed, but attention was not directed to the general problem of economic well-being in framing the constitution. The centre of interest was the problem of distribution of power. Two main currents of thought were in evidence. The intellectuals imbued with democratic ideals were largely concerned with the transference of power from an irresponsible Government to the people, while the others were concerned with sectional distribution of transferred power. It was not realised that constitutional proposals should be framed with the definite object of promoting economic welfare.

The constitution of a country is a system of the most fundamental political institutions under which the people live. In nineteenth century thought democratic ideals were so much in favour that any movement leading to democratisation would justify itself without any further test. But from the functional point of view a constitution can be considered satisfactory only to the extent to which it contributes to the enrichment of life. Since men must live in groups their relations must be regulated by some arrangement which contributes to the greatest well-being of all. In order to achieve this, it is recognised that a constitution must provide such essentials of corporate existence as peace and order and security of life and property. But it is necessary to recognise that a certain minimum of economic well-being is also essential to the development of life and it is almost as important as peace and security. Representative government and democratic principles cannot make any substantial contribu-

tion to the enrichment of life if the people are not assured enough food and clothes and habitable houses. As an essential of civilised existence a constitution must ensure a decent standard of living, in addition to peace and security. It is a legitimate and desirable criterion to judge the merits of a constitution by the extent to which it secures the minimum economic requirements of a people.

In India under present conditions this method of approach is of particular interest. The economic condition of the vast majority of the population is so deplorable that no enrichment of their lives is possible unless improvement is effected in this respect. Moreover, economic organisation has been changing in such a way and interdependence has been increasing to such an extent that unless the Government make well organised effort economic improvement is not possible. It is, therefore, all the more important that in India the constitution should be judged by the extent to which it is likely to increase economic welfare.

1. Objective Tests of Economic Welfare.

In order to estimate the influence of any constitutional proposals on economic welfare, it is necessary that some objective measure of economic welfare should be agreed upon, so that the effects of the constitution can be studied in a concrete form. Economic welfare is made up of a group of satisfactions and dissatisfactions. But so long as this sum total of subjective experience is not linked to some objective and concrete quantity it is not possible to study with any degree of definiteness how it will be affected by a constitution. It is, therefore, essential to agree on some objective counterpart of economic welfare on which the effects of the constitutional proposals can be studied.

Economic welfare is most closely linked with income. So long as we are concerned with a single individual his income as a measure of economic welfare is fairly satisfactory. But when we consider a group of men, whose incomes may change in different directions at the same time, certain difficulties arise. In place of the income of an individual we have to substitute average income per head. But average income alone is not sufficient to give a correct estimate of economic welfare. Average income may rise on account of an increase in incomes of only a few individuals even when a large majority of incomes have gone down. So that along with average income, we have also to take into consideration the dispersion of incomes or the standard deviation of the distribution of incomes among individuals. Further, incomes change from year to year on account of the

influence of economic cycles. A certain average income derived during the whole period of a cycle will be more conducive to welfare if its variability from year to year is reduced. Therefore, economic welfare of a group of men will be dependent on three factors—(1) average income per head, (2) standard deviation of the distribution of incomes among individuals and (3) its variability in time during the different phases of a cycle.

Under Indian conditions the most important of these three factors on which economic welfare is dependent appears to be average income per head. The average income per head in the country is so low that any appreciable improvement in economic welfare by reducing the dispersion of incomes cannot be looked for. Variability in time is also a comparatively less important factor on account of the fact that the vast majority of the population produce the major part of their primary necessities and are still living in a state which has a considerable element of self-sufficient economy. Therefore, in India the most important test of improvement in welfare appears to be average income per head. It is true that there is a possibility of disharmony among the three factors upon which economic welfare is dependent. That is, while average income increases its dispersion among individuals and variability in time may also increase, thus reducing or even, it is possible, obliterating the advantage due to an increase in average income. But where the vast majority of the population has so low an income that even the necessities of life are denied to them, it is not likely that an increase in welfare on account of increase in average income will be completely offset by deterioration in distribution and variability. We can, therefore, make average income per head our objective test of economic welfare.

Average income per head is dependent on national dividend and it is convenient to substitute national dividend as the test of economic welfare. But this step offers a difficulty. Average income may not always change in the same direction as the national dividend. If population increases more rapidly than national dividend, average income may decrease while national dividend increases. It is, therefore, necessary to consider what effect increased income has on the rate of growth of population. Is the rate of growth so affected that the entire increase in income is absorbed in bringing up a larger family, so that no improvement in the standard of comfort takes place? Professor Pigou comes to the conclusion that while increased income may increase the rate of growth of population, it is not likely that improvement in incomes will be completely absorbed in bringing up larger

families. If that is so, then there is no difficulty in passing from average income per head to national dividend. For under these circumstances the two quantities will change in the same direction. We shall, therefore, take the volume of the national dividend as the objective measure of economic welfare and study the effects of the new constitution on it.

2. Economic Provisions of the New Constitution.

The economic provisions contained in the Government of India Act, 1935, are of two kinds—(1) specific measures like the creation of a statutory Railway Authority, establishment of the Reserve Bank,[1] provisions against commercial discrimination and allocation of finance between the Federation and the provinces and (2) the general scheme of administration. The latter of these two groups is of great importance as the specific economic provisions are few and the major part of the control and regulation of economic life will constitute a part of the general scheme of administration.

The general scheme of administration provides that the Federation shall consist of two types of federating units, the states and the British provinces. They shall not be on the same footing within the Federation. As regards the Indian states, the Act makes no provision concerning those functions which are not acceded to the Federation by the Instruments of Accession. So that in respect of one-third of India by area and one-fifth by population the Act can influence administration only within the limits of Federal functions. But even within this limitation the Act does not make it incumbent on the states that they shall accede to the Federation uniform functions or functions similar to those which shall be exercised by it in respect of British India. The Act permits the ruler of a state to specify in the Instrument of Accession the matters with respect to which the Federal Legislature may make laws and to state the limitations subject to which the legislative and executive authority of the Federation shall be exercised in his state. So that the Indian states will be in a block quite distinct from British India, so far as internal administration is concerned, and the Act will be able to influence economic life in them only within the limits of Federal functions and subject to the conditions contained in the Instruments of Accession.

[1] The Reserve Bank of India has not been created by the Government of India Act, but was established by an act of the Indian Legislature as a preliminary to the introduction of the new constitution.

In British India the Act provides a three-fold division of powers and functions. In addition to the administrative functions vested in the Federation and the provinces, the Governor-General and the Governors are empowered to act "in their discretion" in respect of a group of subjects. Another group of functions constitutes the "special responsibilities" of the Governor-General and the Governors and so far as these are concerned they will exercise their "individual judgement." The Governor-General and the Governors acting "in their discretion" and in the exercise of their "individual judgement" shall be under the ultimate control and superintendence of the Secretary of State. Outside their "special responsibilities" and functions in respect to which the Governor-General and the Governors are required to act "in their discretion," the functions of government will be shared by the Federal and the Provincial Governments. Lists of exclusive federal and provincial legislative functions are appended to the Act which, broadly speaking, follow the same lines as the present division between the Provincial and the Central Governments. A list of concurrent legislative powers is also appended. The more important economic subjects included in this list are factory administration, welfare of labour, trade unions and electricity. To the extent to which these three centres of power are unco-ordinated economic administration will suffer from sectional legislation and ineffective control.

Specific economic provisions of the Act vest the ultimate control of the Reserve Bank and the Railway Authority in the Governor-General and not in the Federal Government and so introduce further division of power in the sphere of currency and credit and communications. The provisions against commercial discrimination secure that British subjects domiciled in Great Britain and companies incorporated under the laws of Great Britain, whether before or after the passing of the Government of India Act, shall not be subject to discrimination in India. These provisions ensure that not only the existing commercial and industrial interests shall not be penalised in any way, but British commercial enterprise and companies registered in Great Britain shall, in future also, have the same facilities as Indian business interests. These provisions are categorical in their application, no exception having been made in the case of industries which may be considered suitable for special treatment as basic or key industries, infant industries or industries which may be considered of special importance to the country for some other reason. The financial allocation provided under the Act

follows broadly the same line of division between the Federal and the Provincial Governments as at present. There is, however, the important provision that taxes on income shall be shared between the provinces and the Federation. Taxes on inheritance and on agricultural income, which may develop into important sources of state revenue, have been allotted, the former to the Federation and the latter to the provinces.

3. Economic Development and the Machinery of Administration.

For the purpose of evaluating the effects of the economic provisions of the constitution on the national dividend we have to consider how far, under the proposed scheme of government, it will be possible to organise economic development of the country. In order to enable economic development to be successfully organised a constitution should possess two characteristics. The general scheme of administration and the machinery of government should be so designed as to make it possible to carry into effect organised effort for this purpose, and the centres of power should be so constituted that they do consider improvement in the economic condition of the people a primary function of government. We shall, therefore, discuss how far the machinery of administration, as provided by the Act, will be suitable for organising economic development and how far centres of power will be interested in this question.

No government, especially under present conditions, can altogether disclaim the responsibility of controlling and regulating the economic life of the people. During the last few years even the present Indian Government have adopted a number of measures for economic development. These measures possess certain common features. They show that the Government do not have a consistent and co-ordinated programme of economic development, that they are not too willing to accept the responsibility of regulating the economic life of the country and that they accept such responsibility only when forced by circumstances. Their method of approach is to select peacemeal certain lines of development and to concentrate on them individually without considering national economy as a whole. This attitude towards economic development and this method of approach is open to criticism. This procedure leaves out large sections of the economic life totally untouched and gives rise to a number of inadequate and improvised measures adopted with sectional ends in view, lacking co-ordination and continuity of purpose and

often in conflict with each other. Such regulation no government can escape under the present condition of economic life.

Successful organisation of economic development of a country requires that this haphazard and chaotic method of state interference should be substituted by economic planning. This does not imply that in every sphere of economic activity the adjustments of the competitive price system should be replaced by deliberate regulation. Whatever the economic responsibility assumed by the state, planning is necessary for the purpose of co-ordinating the government's economic activity into a unified whole, for establishing continuity of policy and preventing sectional, inconsistent and imperfectly thought-out legislation. The general scheme of administration under the Government of India Act considerably limits the scope of planning.

The Act creates three uncoordinated centres of power, the Governor-General and Governors for the purpose of their "special responsibilities" and for subjects in respect to which they are required to act "in their discretion," the Federal Government and the Provincial Governments, and recognises a fourth centre of power—the Government of the States. Important economic functions are assigned to each, but no means is provided for co-ordinating the economic activity of one centre of power with another. Even within the limits of the assigned functions important restrictions are imposed on the economic activity of each centre of power by the provisions relating to the Reserve Bank, the statutory Railway Authority and commercial discrimination. In allocating subjects between the Federal and the Provincial Governments, which constitute the two most important centres of power, facility of organising economic development has not been kept in view. So that power has been divided in such a way that planning even within limited spheres is difficult. For instance, agricultural improvement is a provincial responsibility, but agriculture in India has become largely commercialised and is profoundly affected by conditions of foreign trade. Foreign trade is a Federal subject. No provision is made for co-ordinating measures for agricultural improvement initiated by the provinces and regulation of foreign trade by the Federation, so that it is possible that improvement in the condition of agricultural classes by provincial effort may be offset by, for instance, a protectionist policy followed by the Federation.

The future government, therefore, must suffer from the limitations imposed by uncoordinated division of power among

the four centres, by the actual division of subjects among them and by the restrictions arising out of the specific provisions of the constitution. It will not be possible to put into effect a comprehensive and co-ordinated programme of development covering all aspects of economic life. Planning will be possible only within the limits of functions assigned to each centre of power. The actual allocation of subjects is such that even within this limit the efficiency of planning will be considerably curtailed. But all the same, important spheres of economic life will be within the jurisdiction of each centre of power and it will be within their competence to organise development to that extent.

Even within these limitations, if economic development is to be organised satisfactorily by the Federal and Provincial Governments, it is necessary that they should be helped by an efficient economic advisory organisation. The need for the assistance of such an organisation has been constantly felt with the increase in the economic functions of governments during the last decade or two. In India also, the Government has felt the want of an advisory organisation and tentative attempts have been made to explore the possibility of establishing it. An economic advisory organisation is necessary for putting the Government of the country in possession of full facts relating to economic matters and for offering expert advice on problems that may arise, so that the Government may arrive at decisions with knowledge of relevant data and full realisation of the implications of their action. The Act makes no provision for the establishment of such an organisation. On the other hand, it contains nothing which would prevent either the Federal or the Provincial Governments from creating it for purposes limited by the functions assigned to them, if they so desire. Section 135 of the Act provides for the establishment of Inter-Provincial Councils for investigations in connection with matters of common interest for a number of provinces and for making recommendations for better co-ordination of policy. These can be utilised to some extent for advisory purposes and for overcoming difficulties arising out of distribution of power.

So far we have considered to what extent systematic planning of economic development of the country will be possible under the scheme of administration provided by the constitution. We can also approach the subject from a somewhat different point of view. There are certain general improvements which are essential for economic progress. The most important of these are development of sources of power, means of communication, methods of financing agriculture and industries and the promo-

tion of certain basic industries. In respect of each of these the Act imposes important limitations of functions and divided control. Some sources of power are under the control of the Federation while others under the Provinces; the control of means of communication is shared by the Governor-General, the Federation and the Provinces; and while banking is a Federal subject money-lending and money-lenders are assigned to Provinces. The provisions against discrimination make no exceptions in favour of any industry, however important its development may be for the general economic advancement of the country.

Under these circumstances a comprehensive and co-ordinated programme for the whole country, covering all the important aspects of economic life, is out of question. Economic development can be organised only within sectional administrative functions assigned to each of the four centres of power and subject to the limitations imposed by the specific economic provisions. Within these limits it is possible for each centre of power to organise development, covering the whole field of administration assigned to it, if it so desires. It shall also be free to create an advisory organisation for this purpose, if it wishes. The economic possibility of the constitution, to the extent to which it can be realised within the limits set by the Act, will depend on whether the centres of power are actuated by the desire to put economic development in the forefront of their programmes. This will depend on the composition of these centres.

4. Economic Development and the Composition of the Centres of Power.

Of the four centres of power created by the Act, we need not consider for the present purpose the Governments of the States and the Governor-General and the Governors acting " in their discretion " and in the exercise of their " individual judgement." To the extent to which the states do not accede functions to the Federation, they will not be affected by the Act at all. The subjects in respect to which the Governor-General and the Governors are required to act " in their discretion " do not have a direct and important bearing on economic development. The special responsibilities of the heads of Governments include certain important economic subjects, but in this respect they will act in their " individual judgement " mainly for the purpose of preventing maladministration and in the interest of

good government rather than for initiating and organising development in the ordinary course. Economic development, so far as it will be possible under the Act, will be mainly undertaken by the Federal and the Provincial Governments. It is, therefore, their composition which is mainly of interest for our present purpose.

The executive authority of both the Federal and the Provincial Governments will be exercised by the Governor-General and the Governors with the assistance of councils of ministers. These councils of ministers will, therefore, have considerable power under the new constitution and the activity of the Governments will depend on them to a large extent. But the type of men who will constitute these councils will depend on the composition of the legislatures. So that, it is the composition of the legislatures which will ultimately determine the lines on which both the executive and the legislative authorities of the Governments will be exercised.

The Federal Legislature will consist of two chambers, the Council of State and the Federal Assembly. In the former, the representation of the states can be as high as 40 per cent of the total strength, and in the latter 33 per cent. The representatives of states in both houses will be nominees of the rulers. British-Indian representation in both houses will consist of representatives of different communities and provinces according to the scheme of distribution contained in the relevant schedule of the Act, and will be returned from communal constituencies. The constituencies of the Council of State will be territorial and the qualifications of voters will be " such as may be prescribed." The representatives to the Federal Assembly will be returned by the members of the Legislative Assemblies of the provinces.

Out of the eleven Governors' Provinces provided by the Act, six will have two chambers—the Legislative Council and the Legislative Assembly; the rest only one—the Legislative Assembly. The representatives will be distributed among the different communities and will be returned mainly from territorial constituencies. The franchise for the Legislative Council will be " such as may be prescribed." For the Legislative Assembly detailed provisions as to franchise, province by province, are given in the Sixth Schedule of the Act. The main qualifications are payment of certain taxes, ownership of property and education up to certain stated standards. The number entitled to vote under educational qualification and on account of payment of taxes without owning property will be small. The Legislative Assemblies will be largely returned by property owners.

The composition of the legislative bodies shows that they will be extremely conservative in temper. They will be composed largely of the representatives of property owners and vested interests, and will naturally be moved with the desire to safeguard and promote the welfare of the class they represent. In addition, the members will be divided among themselves in the interests of different communities, having been returned by communal constituencies. The two chief centres of power in whom initiative for economic development will largely rest will not be interested in the problem of systematically organising improvement in the economic condition of the people, even within the limits of the power vested in them.

The new constitution is essentially a safeguarding constitution. It will not be possible under it for any one sectional interest to make serious encroachments on the standard of living of any other class, in spite of transference of some power. But its merits are also its defects. The general scheme of administration and division of power, and the composition of the centres of power provided by the Act makes it unlikely that any remarkable improvement in the economic condition of the mass of population will be effected by virtue of the coming into force of the new constitution. Economic improvement, so far as it will be achieved, will be largely the result of private initiative as at present.

RATIONALISATION OF INDIAN INDUSTRIES

BY

C. N. VAKIL.

SUMMARY.

Reorganisation of industries in the West in the post-war period. Nature of steps taken. The term 'Rationalisation.' The position of Indian industries and need for similar efforts. Attempt to establish a case for Rationalisation of industries in India. Rapid review of the position of a few selected industries: (1) Cement; (2) Sugar; (3) Salt; (4) Jute; (5) Coal; and (6) Cotton.

Need for a larger outlook on the part of those in the control of industries. The contribution that economists can make towards the solution. Need for research. Plea for a co-ordination of the work of the Economist with that of the Government and Businessmen.

Introduction.

The problem of the reorganisation of existing industries has attracted great attention in the West during the post-war period. The defects in the existing arrangements came to light; the nationalistic policy led to more production in the same kind of industry in different countries; both internal and international competition led to struggle; the costs of production increased or at least did not show signs of decrease nor efficiency; the demand was going down with the reduction in the purchasing power of many countries; low prices and the depression made the already acute situation chronic in many parts of the world.

Great efforts have been made in the West to save the existing industries from ruin by adaptation to the new situation. These have been chiefly in the direction of (1) elimination of waste in the cost of production; (2) elimination of competition; (3) co-operation between producers for the control of markets, output and prices; (4) and in general avoidance of the evils of extreme individualism without creating the evils of monopoly. Such efforts have been known by the term 'Rationalisation.'

The industrial growth of India is still in its early stages. We have on the one hand to organise for the development of our industries, and on the other meet foreign competition during the process. We cannot afford to repeat the mistakes of those who have preceded us; and have to be up-to-date in our methods and

thorough in our efficiency. If we fail to do so, we shall find that the maintenance of existing industries in India will become difficult, let alone the further growth.

The case for Rationalisation of industries in India can be established by a rapid review of the position of a few important industries. The object of this paper is only to raise the problem; it is not intended to give an exhaustive treatment of the difficulties of any industry; nor is it intended to suggest concrete remedies suitable for one or more industries. But if the seriousness of the problem is realised, the attention of those concerned may be directed towards the search for remedies, and the object of this paper is merely to indicate such a need.

Cement.

The Cement industry in India is of recent growth. It applied for protection a few years ago, but did not succeed in getting it. It was, however, realised during the inquiry by the Tariff Board, that the industry could help itself by eliminating internal competition. In consequence, the Cement Marketing Company of India was formed. Most of the cement factories are members of this Company, and the remaining have working arrangements with it. The marketing of Indian cement has been centralised, because the total output of the member factories is sold by the Marketing Company. Each member factory is assigned a definite quota of cement of standard specification to be manufactured during a given year. Orders for cement are placed with the Marketing Company which charges a fixed price for destination, and directs the nearest factory to deliver the quantity. Transport arrangements with the different railway companies are made by the Marketing Company which succeeds in getting favourable rates. Non-members are assigned a given geographical area over which they have full control. The Company also fixes the selling prices for the different consuming centres. At the close of the year, the profits of the Company, left after defraying its expenses, are distributed among the member factories, according to the quota of cement manufactured by them. The Company has thus succeeded in eliminating internal competition, in reducing transport charges, in avoiding over-production, and in increasing the demand for cement, by a centralised advertising campaign as well as by better service to the consumers.

Sugar.

The Sugar industry is also of recent growth. The rapidity with which it has grown has perhaps left room for certain weak-

nesses in its organisation, which those interested will have soon to attend to. For example, unhealthy internal competition among the Sugar factories has already been noticed. This has led to the formation of the Sugar Marketing Board. The objects of this Board are comprehensive, but it has failed to enlist the sympathies of many Sugar Factories. The work of the Board has therefore suffered.

Unlike Cement, the Sugar industry has complications due to differences in the quality of production, the larger number of producers, and the extent of the market, the purchasers being the large masses of consumers. Besides, the Sugar industry has the benefit of protection.

Salt.

Though in most parts of the country Salt produced locally or in neighbouring areas is available for consumption, the Bengal and Burma markets depend on imports, either Indian or foreign. Some Indian Salt Manufacturers have found it necessary to combine for effective marketing. They have constituted the Salt Marketing Board, which regulates the prices of each shipment for all sales ex-ship and ex-golahs having regard to the quality. The declared price is binding on all members, and each of them agrees not to sell at lower prices nor to allow any rebate or concessions. The Board also fixes the quota for the annual imports by each member. It should however, be noted that the Board represents only a small section of the industry.

Jute.

Rationalisation in the Jute industry has taken the form of restriction of production. With a view to meet the falling prices and the falling demand due to the depression, the mills at first agreed to work only 54 hours per week. A temporary increase to 60 hours in 1929, was followed by a complete stoppage of work for three weeks in 1930. Ultimately the reduction of hours to 40 per week, and the sealing up of 15 per cent of the looms was decided upon. This applied to the members of the Indian Jute Mills' Association. The non-members who owned only 5 per cent of the looms, increased their equipment and working hours. This threatened the working of the scheme of restriction. At last a compromise was effected by which the non-members agreed to 54 hours a week for themselves. In spite of this it was difficult to continue the arrangement; the sealed looms were gradually released and the agreement terminated.

About the same time voluntary schemes for the restriction of the area under jute were tried with the support of the Government, but were not successful.

Coal.

The Coal industry is suffering from overproduction, which is now about 20 million tons a year. The railways have been the largest consumers of coal; but in recent times they have acquired their own collieries, which meet part of the demand. The electrification of railways in certain parts, and the use of electricity and oil in the cotton mills of Bombay have been additional causes of the reduction in demand. Besides, since the war, Indian coal has lost some of the foreign markets which it catered for before.

The Coal industry prepared a scheme of restriction to be worked in co-operation with the Government. This was, however, rejected by the Government.

Among the various difficulties of this industry, one is the existence of diverse interests, Indian and European. There are three separate associations of colliery owners representing different groups. Co-operation between them on agreed lines has obviously its own problems.

Cotton.

The Cotton industry is the largest among the big industries in the country and employs 6 lakhs of persons every day. In spite of this, and in spite of the protection which it enjoys it is not in a flourishing condition. Many of the mills do not have profits and several have accumulated stocks. The Bombay section of the industry is the worst situated on the whole.

Apart from improvement in general organisation, economy in management and costs, co-operation between different regional groups for common problems and such other remedies, there are a few others which may be suggested.

It is surprising to note that the Japanese Mills get their supplies of raw cotton from India cheaper than the Indian Mills. This is due to the well-organised purchase policy of the Japanese. Raw cotton is not purchased by individual Japanese Mills in the open market. Instead, this is done by highly organised Japanese houses established in India and elsewhere. These houses do the dual work of purchasing the raw material for their home industry, and also of selling its products in the foreign centres where they are working. For example, in India, three such Japanese firms operate on a large scale. They have the strong financial support

of Japanese banks and are assisted by the Japanese Government in a general way. Their agents are scattered throughout the cotton growing areas; they finance the cultivators, purchase their output during the harvesting season at low rates, and despatch in bulk from the important collecting centres at reduced rates to the nearest port. Competition between the railways for port traffic enables them to get specially reduced rates, which are not available to mills situated in the interior. From the ports, the raw material is carried at exceptionally low rates to Japan, because of state subsidy to Japanese shipping.

The Indian industry has to learn from these methods. The Indian Millowners may themselves form a Company, whose business would be to purchase cotton for them from the grower by suitable arrangements. Such a Company would also control ginning and pressing factories, so that the supply to the industrial centres might be co-ordinated. This would also eliminate speculation in the purchase of cotton, which is believed to be prevalent among some of the managing agents. The saving in transport costs and in the charges of the middlemen would also be considerable.

In the alternative, one or more independent companies could be floated with the object of marketing between them the total amount of cotton produced in the country. Such an effort would loosen the Japanese hold on the Indian grower of cotton. An organised arrangement of this sort will lead to improvement in the quality of cotton and therefore in its price. It would also be possible for such an organisation to improve the marketing of Indian cotton in foreign markets. The sale of Indian cotton manufactures in foreign centres would also be facilitated by such an organisation.

Conclusion.

This rapid review of attempts towards rationalisation in some cases, and of difficulties in others, though neither exhaustive nor thorough, does on the whole lead us to the conclusion that all is not well with our large industries. It is obvious that both the existing large industries and those that come in the immediate future, will have to look ahead and look around, if they are going to live long and live well. Busy in its immediate daily routine, anxious to make profits, at least sufficient to keep the shareholders in good mood, each individual industrial unit often loses sight of the larger problems, on the solution of which its own existence depends. It is high time that those in the control of industries extend their vision beyond their immediate environment, give

up their narrow personal points of view, and decide to come together on national lines, in the common interest of themselves and of the country.

The Managing Agents of various companies who are in the virtual control of the industries in the country are on their trial not only for the removal of the various defects in their management which have been pointed out in various quarters, but also for showing that foresight, courage and resourcefulness which are necessary for the ordered growth of Indian industries. In the problems which these industrial magnates have to face, the economists in the country have a contribution to make. Some of their problems require steady and painstaking research by persons who have adequate training and equipment for the purpose. Some of them require collection of scattered information both within this country and in other countries on systematic lines, so that such information may throw light on the problems concerned. The Economist, of course, cannot be expected to do this sitting in his academic chair; he must be given time and opportunities to have an insight into the practical problems that face the industry. If this is done, as is done in other countries, the training and work of the Economist could be directed into useful channels, which will be of ultimate advantage both to the industry and the country.

The Economist is often criticised either as a mere theorist and therefore useless for practical work; or as politically-minded and therefore to be kept at a distance. The work of the Economist is sometimes ridiculed by statements such as those of the present Finance Member to the effect that when five economists meet six opinions are given. But he himself was constrained to take the support of a random sentence of Professor Pigou in talking to a meeting of businessmen in Bombay some time ago. And we all know that the mistakes in elementary economic laws which are now made in public in connection with the proceedings of the Tariff Board would have been avoided if the Economist member of the Board had not been removed. I say this to show that there is much that the Economist can give both to the Government and businessmen, if the latter know how to take it.

THE CHANGING STRUCTURE OF THE JUTE MILL INDUSTRY

BY

M. L. DAM,

Lecturer, Dacca University.

Though the Jute Mill Industry is centred round Calcutta, its importance to India is far more than a local matter. It is so supremely our most important source of export trade in manufactures that it overshadows all others. In 1928—29, the last year of prosperity, 17 per cent of our exports were in Jute manufactures alone as against 2 per cent in Cotton manufactures which occupy the second place. On the average raw and manufactured Jute combined represent more than 50 per cent of the exports of Indian merchandise from Calcutta and between 20 to 25 per cent of the exports from the whole of India. The direct contributions of the industry to Central revenues, even after the adoption of the principle of sharing, is not inconsiderable; the indirect contributions are very large indeed.

I

The development of the Calcutta Jute Mill industry is indicated by the table below:—

	Sacking looms	Hessian looms	Totals
1859	......	......	192
1869	......	......	950
1877	2,948	910	3,858
1885	4,900	1,800	6,700
1890	5,359	2,300	7,659
1901	8,613	6,600	15,213
1910	13,421	18,334	31,755
1920	16,124	24,353	40,077
1929	19,502	31,534	51,336
1930 (after census)	22,066	36,073	58,139
1932	22,693	37,704	60,397
1934	29,693	37,704	60,397

As in other cases, the Jute industry also, developed by fits and starts, a period of comparative quiescence being followed by intense activity. The Franco-Prussian war gave an impetus, and we find five new mills being floated in 1872-73. This sudden expansion from 1,250 to 3,500 looms was more than what was justified by trade demand, with the result that, excepting one, no more new mills were started until 1882. During the next three years, four new mills were started, again bringing a position of overproduction. It was to meet this situation that the Indian Jute Mills Association was brought into being in 1884. The spasmodic expansion of the industry continued in the present century as well. Stimulated by phenomenal profits, such as dividends of 200 to 400 per cent, a number of mills were floated during the Great War and after. Two of these mills, *viz.*, Birla and Hukumchand started in 1919, mark the entry of Indian management into the Jute industry. Even before this time, Indian capitalists occasionally fancied the idea of establishing Jute mills, but they had not the boldness to take the initiative in an enterprise which had so long been a closed preserve of the Scottish, and where even a moderate sized mill would require a block capital of about fifty lakhs. It was possibly the huge war profits that emboldened the Marwaris to break the ice in 1919, and now the Gujratis and even the Bengalees have entered the field. The war time prosperity also led to the starting of two mills, *viz.*, Ludlow and the American Manufacturing Co., by the Americans.

There are at present 94 mills round Calcutta on the banks of the river Hooghly, operating over 60,000 looms and giving employment to about 4 lakhs of workers. In addition, there are a number of mills of 20 to 25 looms operating in Calcutta itself. There are also mills in India working outside Calcutta, two in the Madras Presidency, two in Bihar, one in the United Provinces, and a few more are in contemplation, or in course of erection.

II

In connection with the development of the structure of the industry, it may have been noticed that, half a century ago the score of Jute mills in Calcutta were chiefly engaged in the production of Sacking; the trade in Hessians scarcely existed, and of the total tonnage of manufactured goods exported, between 80 to 90 per cent was sacking; it follows, therefore, that mills were built then with a predominance of sacking looms, and the " Lay-outs " of all mills built up to the late nineties

followed these lines. In 1895 the proportion of Sacking to Hessian looms was about 2:1, but then the Hessian trade began to lift up its head, and in the following years progressed by such leaps and bounds that the millowners at once took the measures necessary to cope with it. New mills from then onwards were equipped with loom ratios of 50:50, 60:40 and even higher, in favour of Hessian looms. The lower qualities of Jute cannot be used for the manufacture of Hessian and therefore a certain proportion of Sacking looms must be installed in every Mill to enable it to dispose of its low quality Jute; but owing to the depressed state of the Heavy Goods market in recent years, the Hessian Mills have been in a more favourable position for a long period, and will remain so unless there is a decided revival in the market for Heavy Goods.

III

For our present purpose, Jute mills in India may conveniently be distinguished into the following four groups:—

1. Mills in the membership of the Indian Jute Mills Association controlling 56,872 looms.
2. Non-member mills in Calcutta working under special agreement with the Mills Association representing about 3,451 looms.
3. Non-member mills in Calcutta working independently of the Association.
4. Mills in India outside Calcutta (Bengal) all of which are working independently of the Association.

The number of looms controlled by independent mills (groups 3 and 4) will not be less than 2,500. Many of these mills are being entirely remodelled and extended, so, the number of looms mentioned here should be taken as a rough minimum approximation. It may be noted here that in point of age, few—if any—non-member mills can claim an existence of more than ten years. Paradoxically enough, most of the mills in group 3 have come into being during the present depression.

The Jute Mill Industry in foreign countries is of considerable magnitude, and very widely distributed. In addition to Dundee, the original home of jute manufacture, there are now Jute Mills in Germany, France, Italy, Belgium, Czechoslovakia, and to a small extent in Brazil, America, Japan and China. The foreign industry is said to possess about 45,555 looms.

The foreign mills outside Britain mostly supply domestic requirements; and produce better qualities of hessian and sacking, goods of odd sizes and specialities such as canvas, tarpulins, carpets, curtains, rugs, etc. These mills are generally small in size, but equipped with the latest appliances. The Indian mills have thus to meet competition from her old rival, Dundee, and increasingly more from young rivals like the Continent, and very recently from Japan.

IV

To meet this situation, the Indian Jute Mills Association decided in 1929 to increase working hours to 60 hours per week. Before this, the mills were working 54 hours, in compliance to a policy of adjusting supply to demand after the Great War, when it was realised that the potential capacity of the industry was considerably in excess of possible normal demand. The decision to work 60 hours was taken with the object of retaining for India, a trade which by reason of the short time working started in 1921, was passing to Dundee and the Contitent. Unfortunately, the inauguration of this enlightened policy coincided, on the one hand, with the beginning of the present trade depression, and on the other with the entry of six new mills outside the Association. The Association, therefore, adopted the twofold policy of reducing working hours, and bringing the independent mills within the membership of the Association. It was decided to revert to 54 hours working from June 30, 1930.

But, as the position quickly worsened, it was further provided that, all Association mills should remain closed for one full working week, each month, from July, 1930, to March, 1931. More drastic measures were soon found necessary, and from March, 1931, it was decided to work 40 hours per week with 15 per cent of the total complement of looms of each mill sealed. Recognising that such sacrifice on the part of the Association Mills would be of no avail unless the outside mills joined, strenuous efforts were being made all the time to rope them in. Barring two, the rest joined the Association in 1930. Within a few months two of the new members seceded from the agreement, and commenced working double shifts or more. Other mills also threatened to follow their example, and the industry was faced with a position of rampant over-production, chaos and ruin. The situation was as serious then as it is now. All attempts to reach an amicable settlement having failed, His Excellency Sir John Anderson was prevailed upon to intervene, and after repeated conferences at the Government House, an

agreement was concluded, in the middle of 1932, of which the chief terms were as follows:—

(*a*) The Association Mills were to work 40 hours per week with 15 per cent looms sealed.

(*b*) The "outside" mills agreed to work 54 hours per week with a full complement of machinery.

(*c*) During the period of agreement there was to be no increase in looms.

It may be noted, that the agreement was not upon an uniform basis for all mills, the outsiders, owing to their infancy and financial weakness, having exacted the concession of working about 33 per cent more. But for His Excellency's intervention, there would have been no agreed settlement short of complete surrender on the part of the Association mills. Considering the urgency of the situation, and possibly transitory character of maladjustment, His Excellency did the most right thing possible at that time. If manufactured goods were allowed to find their own level, raw jute might meet the fate of Brazilian coffee: everyone knows what that means for Bengal.

V

Outside the Association and these agreements, there have been springing up, with alarming regularity new concerns which have been adding looms from time to time, and subscribing to no limit of working hours. To meet this competition, as stock position improved, the Association decided, in the course of the last two years, to open up gradually 10 per cent of the sealed looms. This policy failed to operate as a sufficient deterrent to new flotations or extensions in view of the increasingly higher profits jute mills were making after 1932. People invested their capital with the intention of exploiting a situation created by the self-denial of the 'Member' mills. There was no reason why new mills should not be erected if profits could be made by working full time, or at least 108 hours. Besides, some of the Agreement mills, put forth from time to time, demands for special consideration. Inside the Association itself, there was a growing volume of unrest. A number of members now believed that, the arrangement of 1931, under which specially favourable treatment was accorded to the new-comers, whilst concerns of older standing had to be content with the *status quo*, was inequitable, and harmful to the industry as a whole in view of growing Japanese and Continental competition. The Associa-

tion had always been opposed to drastic measures, and were trying hard to bring about an amicable settlement of the various view-points and interests. A solution of the tangle was also sought by an application to the Government for help by giving statutory force to the terms of the Agreement of 1932, and extending the statutory application of these terms to all jute mills in Bengal. After a delay of 13 months, the Government of India's reply, expressing inability to give legislative support to the proposals, unless certain conditions were fulfilled to their satisfaction, was received in August last. The subsequent developments are too well known to require any recital here. Suffice it to say that the " Agreement " mills have been relieved from the terms of the Agreement with effect from the 31st March, 1936; that the decision has been taken to reopen the final 5 per cent looms now under seal on February 17, 1936; and that if no fresh agreement is arranged by December 31, " Member " mills will work 54 hours per week from April, 1936; no final decision in this matter has yet been taken, but, for the time being, the nightmare of unrestricted working and cut-throat competition has receded. Meanwhile, ceaseless attempts are being made to arrive at some sort of an agreement satisfactory to the interests involved.

The Government of Bengal and Sir John Anderson personally, are taking an active interest in the deliberations which are now going on. The deputation that went to Delhi was a strong one, and Sir John Woodhead, the Finance Member of Bengal, was present to watch the proceedings.

VI

In their memorandum, the Government of India expressed the view that the prime need of the industry was better organization by concentration of production in a limited number of mills working full-time and content with reasonable profits. The Jute Mills Association in their reply to the Government had no difficulty in showing that the calculation upon which this contention proceeded was either unintelligible or wrong. The Association have made it quite clear that, on the basis of 54 hours per week, only 25 per cent of the machinery in the industry may be said to be redundant. The contention of the Government that, 75 per cent of the machinery was redundant, might be true if all mills worked 24 hours a day.

The Association further demonstrated that the scheme for rationalisation suggested by the Government, is not practicable at the present time. Almost all the jute mills are in a sound

financial position, and even the weakest in this respect are wonderfully strong in comparison with most other industrial companies in this country. All the mills, with only a few exceptions, are giving decent dividends. Hence, it would be impossible to select the mills to be closed down. Moreover, the selected mills would have to be bought as going concerns, not at mere scrap value. Regarded in this way, it seems that, rationalisation on the lines suggested by the Government would fail to meet the Government's main contention that, under the present organization of the industry, the consumers of the goods are being asked to provide profits on an amount of capital far in excess of the needs of the industry. It is, however, likely that, the scheme might effect some economy in working expenses, and thereby reduce cost of production somewhat. It is understood that, the Mills Association have submitted other alternative schemes of rationalisation to the Government, which have not yet seen the light of day.

The Managing Agency system, as it prevails amongst the jute mills in Calcutta, has an important bearing on the problem of rationalisation. Generally speaking, the varied interests of the Agency firm in the mills, are not identical with the interest of the shareholders. Looked at from a different view-point, rationalisation of a kind, *viz.*, amalgamation would appear easier to attain under the Agency system. Of the more important agency firms, Andrew Yule & Co., manage eleven mills with 8,030 looms; Bird & Co., have seven mills with 6,174 looms; Jardine Skinner & Co., have only four mills with 6,540 looms; and Thomas Duff & Co., three mills with 5,138 looms. Most of the mills under the same Agency have got a number of common directors. Moreover, a jute mill directorate usually consists of only four directors; and the various mills under an Agency are of comparable strength and standing. The economies of the Managing Agency system cannot be realised to its logical extent, unless the various mills under an Agency lose their independent legal and functional existence into an amalgamation.

VII

Failing, or, pending rationalisation, two other courses are open, viz., (*a*) uncontrolled production, (*b*) restriction of production.

The first would result in very low prices for jute goods; and at the same time increase the price of the raw material. It would certainly mean a fight to the finish and the survival of the

fittest. Because of their strong financial position and large stocks of jute, the "Member" mills are expected to emerge successfully out of the depression that is bound to follow. The inexorable laws of supply and demand would undoubtedly bring a new equilibrium and stability. But, at what prodigious cost to the economic fabric of Bengal! A time must come when the mills will refuse to buy raw jute at an uneconomic price, and then it will be the turn of the grower of jute to suffer. The liquid funds, the accumulation of so many years of self-denial, will have been wasted for no purpose, and mills will be carrying debit balances. As mills close down, there will be unemployment of labour, strikes and unrest. The shareholders, 75 per cent of whom are Indians, would be poorer by an annual loss of dividend of more than a crore of rupees. (In 1931, the worst year of depression, jute mills made a profit of this amount); and would also find their holdings depreciate in value by more than 20 crores of rupees. In this backward swing of the industry, the general public, and the Central and Bengal Governments would not remain unaffected. In these days of planning and management, is not this an unnecessarily high price to pay for the eventual adjustment, which must again be of a temporary character?

If unregulated production as a means of restoring the balance, is uneconomic, some sort of restriction of output becomes inevitable, in view of the 25 per cent excess of productive machinery.

Restriction by agreement with the non-member mills had been tried, but found wanting. The agreement is always liable to be torpedoed by individual mills seeking some special consideration. If the concession asked for be not granted, it threatens to withdraw. The Association is caught in a dilemma; if the demand of the particular applicant is satisfied, a whole host of similar claims crop up and there is an end of the agreement. Another serious drawback is that, the Association has no power to prevent the erection of new mills.

If the policy of restriction succeeds in keeping up prices and profits, a temptation is given to Indian capitalists to start new independent mills, and also an impetus to the expansion of the foreign jute mill industry; thus, restriction in the end digs its own grave. It cannot be said that this danger is due to the large element of Indian management in the industry at the present time; for, it is widely known that, even during the restriction of 1921—29, many of the members did clandestinely increase their loom capacity. Human nature being what it is,

no permanent good can accrue to the industry, by giving voluntary restriction any more trial.

VIII

Statutory restriction, if it is to be successful in stabilising the industry, must comprise all jute mills in India and prevent or regulate any further extensions to mills. It must also, as the Government insisted, safeguard the interests of the jute-grower; and secure some measure of rationalisation of the industry. But there are very sound objections to such legislative protection. There is no sense in giving protection to an industry against indigenous competition, specially when, the new mills are being erected by Indian capitalists. Moreover, such legislation must be condemned as uneconomic and illogical when rapid extensions are being made to the industry in Japan and the Continent. Also it is ridiculous, harmful and bad policy to give such protection to an industry, where all the mills, with a very few exceptions, are giving dividends at a scale much higher than any other industry in the country. The reply of the industry to the charge of high profits is that, in the constitution of the capital of a jute mill, ordinary capital forms a small part of the whole, and that, mills have been doubled or trebled out of shareholders' contributions in the form of depreciation and reserves. The logic of this contention is undeniable; but, even when full allowances have been made, the fact remains that jute mill profits are generally on a much higher level. Recently, reports have been received that, millowners in Bombay, who have lost heavily in the cotton industry, contemplate selling their plant at scrap value and instal jute machinery instead.

If any statutory restriction is imposed, it should be on the basis of such a working week, uniformly for all mills, as would leave a surplus production of 10 per cent above the present demand. This is in view of the growing improvement of trade in recent months, and in recognition of a policy not to give the mills a full sense of security. The mills, also, ought to take chance of recapturing lost markets; though, we are not very hopeful about prospects in view of large extension to the foreign industry, and the policy of aggressive national self-sufficiency adopted by most countries.

It may not be out of place here to discuss the place of the Indian Jute Mills Association in the structure of the industry. At the outset, it may be noted that, the name is a misnomer, as, there is no mills outside Bengal in its membership. It is the

mouthpiece of its members in all relevant matters. Its business is of a formal routine character. Though it publishes valuable statistics of production, sale and incidental matters, its work on the side of publicity and propaganda has not been of a successful character; as is evident from the hostility of the ordinary public towards the jute mills, and the failure of the Association to have the Jute export duty properly adjusted as between the raw material and manufactured goods. Perhaps, the Association has not yet realised that, in these changed days the Clive Street 'Burra Sahib' mentality does not pay.

The Association does not undertake any work on the technical side like the Concrete Association of India; nor does it care for the distribution of the product like the Cement Marketing Co., or, the Sugar Marketing Board. For initiative, technical progress and research work, each mill stands upon its own legs. It is claimed that, "this Association has been of the utmost value in regulating the output of mills, to meet the varying demands of trade." Undoubtedly, it has played a great part in adjusting supply and demand with a view to maintain profits and conserve the resources of the mills in times of depressions; but in achieving this, valuable markets have been lost and rivals have emerged. The Association has further failed to give a lead in the reform of the Jute Futures Market, which, competent observers believe, subsidises the foreign jute-mill industry at the cost of the local millowner. An association so limited in functions, so conservative and shortsighted should be given an early burial, and in its place should rise a body that has the power and capacity of true leadership, and can serve as 'friend, philosopher and guide' to the industry, and make it stronger and sounder.

SOME ASPECTS OF WAGES

BY

GYAN CHAND,

University of Patna.

That the present position of the theory of wages is unsatisfactory is generally admitted. Neither the general level of wages nor wages or salaries paid in particular occupations are accounted for by any of the theories that have been formulated to account for them. The wage-fund and subsistence theories have been discarded by all economists of standing, and though productivity theory or marginal productivity theory is still in the field, and owing to the prestige and influence of Marshall is put forward as an explanation of wages, it is admitted that a close analysis of this theory reveals its shortcomings and inadequacy to fit with the facts. The criticism which has been levelled against it is of a negative character, but in spite of the absence of a satisfactory substitute for it, it is realised that the economists are not in a position to speak with any authentic voice on the current problems which have given rise to such divergent views.

The limitations of the productivity theory are a matter of common knowledge. The difficulty of isolating the contribution of the marginal labourer, confusion between the production of physical units and value, which, of course, is independent of the efficiency of the individual labourer and the fact that the margin of productivity on which the contribution of the marginal producer is measured, if not determined, is itself the function of the wages paid make the productivity theory untenable from the theoretical or practical standpoints. And if to these is added the impossibility of measuring the contributions to the national income of the producers in different trades and occupations, the theory breaks down completely as an instrument of scientific enquiry or means by which practical guidance can be offered to the statesman and the administrator in the solution of practical problems.

The above statements do not, of course, constitute a denial of the obvious truth that the total output of industry and the efficiency of each individual worker are factors of first-rate importance in determining the remuneration of those who make a living by the sale of their brain-power, skill and capacity for physical exertion. But the main point which is implied, though it cannot be at all adequately developed in this paper, is that the allocation of the total output among different workers or classes of workers is more or less a matter of social convention.

or in other words what is called ' distribution ' of wealth is governed by conditions for which no economic laws can be formulated and which have grown up by the interaction of complicated social factors, the most important among which is the existence of class divisions which do not only determine the entire social structure but also the limits within which economic forces are permitted to operate and produce results.

The social usage is particularly important in determining the standard of living or what in most cases is, to use the Malthusian phrase, the standard of wretchedness. The standard is, according to the view enunciated in the economic text-books, the factor on which the ' supply price ' of labour depends. Ever since the time of Malthus and Ricardo it has been admitted that the only way of permanently raising the standard for the lowest strata of population, which, of course, means a vast majority of workers is, provided circumstances are favourable, to create new social habits and give them time to acquire fixity and effectiveness for social purposes. That amounts to saying that the customary standard of living is a matter of valuation which the producers put upon their own work and life and any improvement in self-esteem, which raises them in the social scale, enables them to hold their own in their attempts to acquire a larger share in the social income. This improvement not only affects their numbers by bringing into play prudential checks and determines the ease or otherwise with which they acquiesce in the deterioration of their economic position, but also gives them the necessary social cohesion to act in defence or promotion of their interests. The standards of the higher classes are, of course, entirely a matter of convention and the ' conspicuous ' expenditure and waste in which the leisured classes indulge is more a measure of their social importance and a symbol of power and authority than a means by which economic efficiency is promoted or conditions favourable for the exercise of initiative and enterprise are secured. The development of idealistic social traditions can in particular vocations temper the effect of the standard of living based on acquisitive or class consideration by introducing into work a larger amount of social purpose; but on the whole it may be stated that the forces on which the ' supply price ' of labour is supposed to depend are really class standards which set forth the relative positions of different grades of producers and secure for them not only economic goods, but also economic power on which authority of every kind always depends or become the index of their depressed or suppressed position.

Social structure is important not only in determining the differences of wages within a country but the differences between different countries of the world. The writers on international trade do make allowance for social stratification or the existence of 'non-competing' groups, which is only a colourless phrase for vital class-division, but either assume that they are almost identical in important trading countries or in cases in which they are not, that they do not materially affect labour costs and, therefore, have no bearing on the validity of the theory of comparative costs. This is purely an unwarranted assumption and is made for the purpose of gliding over difficulties in logical reasoning. The differences of wages are partly accounted for by differences in productive efficiency and countries of high and low wages are not necessarily countries of high or low prices. But wages depend upon price structure which in its turn is only reflex of the entire social structure; and it is not only in exceptional cases that low wages give an 'unfair' advantage to the industries which are competing in world markets, but they can and do become a permanent condition of international trade. Though the interests of workers are only a secondary consideration in the administration of industry, labour, of course, being treated merely as a commodity all the world over, the extent to which its interests are being subordinated in the scramble for markets and profits varies within a wide range and these variations are the cause of international complications of which the ineffective efforts of the I. L. O. to attain some sort of uniformity of working conditions and wages is only a feeble expression.

As the economic theories of wages are more ingenious than convincing and ideas of laymen are characterized by no greater clarity of thought, we have in practice an amount of confusion which makes the present position extremely unsatisfactory. On the one hand attempts are being made to introduce a 'non-economic' or human factor in wage-regulation by fixing national minima, introducing a system of family allowances, raising the purchasing power of the masses as a means of economic recovery and protecting the national level of wages by 'safeguarding' measures of all kinds. The development of social and security services is another tendency which, though really an attempt of the privileged classes to buy off the masses and present them from lending the strength of their numbers to the hostile forces which are challenging the supremacy of the classes in power, finds its rational and conscious justification as a measure of social justice, are in line with other developments referred to

above, and along with them are an evidence of the dim but growing recognition of the arbitrary and unfair character of the scales of wages in all countries, and of the application of the principle of solidarity which, if carried to its logical conclusion, cannot but change radically the very basis of the existing social order. But besides these liberal views and measures there is an increasing volume of opinion in the industrial countries against any further pampering of labour, the 'rigidity' of wages is being pointed out as one of the most potent causes of serious maladjustments, and attempts are being made to circumscribe the sphere of action and undermine the influence of the trade unions as organs of self-defence of labour interests. The conflicts, which are coming to a head owing to the existence of international wage differences, only bring into bold relief the almost insuperable difficulty inherent in the baffling situation with which we are confronted and which, in their national and international aspects, are a source of utter confusion in dealing with the practical issues of the day.

Apologies are due for the sketchy character of this short paper and the process of undue condensation to which it has been subjected in places but its trend is clear and the conclusion to which it leads can be briefly and simply stated. The wage theories of the economic text-books are really a vindication of the existing economic system, and the fact that the productivity theory, in spite of its well-known and serious limitations, finds such an important place in them, is due to the ethical judgment implicit in it that on the whole everyone gets what he is worth and in the long run 'equilibrium price' of labour is the measure of the services rendered to which the rewards get adjusted. There is a flagrant contradiction between this view and the facts. The wage levels are a part of the existing social structures, the most important feature of which is the application of different standards. There is very little correspondence between 'money costs' and 'real costs,' and margins of production are not the points at which contributions of producers are measured but are the points at which the relative strength and weakness of conflicting interests are revealed and established. Low wages are an index of the low value attached to life and the price structure of every country embodies a scale of human values for which there is no rational explanation or justification. The conclusion is capable of further development and much greater amplification, but its essential soundness is to the writer not open to question and is of very great help in understanding the anomalies and contradictions of wage policies.

WAGES AND COSTS—A THEORY OF CRISIS

BY

B. K. MADAN,

Panjab University.

Costs—a Definition and a Distinction.

Costs of production may be interpreted broadly from the social point of view to include the payments made to all the agents of production, *viz.*,—wages, rent, interest and dividend payments or profits,[1] and higher salaries which are the rewards respectively of labour, land, capital and risk-bearing, and management. There is a significant difference between the social point of view thus regarded and the individual viewpoint of costs. The individual counts as his *costs* the payments that he has to make for the services of the other agents which he hires for use in the act of production, and as his *profits* the surplus of his total receipts over costs. Profits are thus in a different category from costs. They figure as net receipts for the individual employer or employing concern whereas costs count as payments. From the point of view of the community, profits may not be placed in an altogether different category from the other elements of costs, though their pivotal position in the present economic system must also be recognised. They are a *payment* made by society for the service of risk-taking, a payment which varies from time to time by the very nature of the service, but which may nevertheless be included with other payments to form the total costs of production. The total costs

1 Dividend payments are not exactly equivalent to profits, though a confusion between the two arises from the fact that dividends are frequently the form in which profits are taken out of business. Dividends, while usually taken out of profits may in any given year be either more or less than the aggregate of profits. In years of very high profits, surpluses are built up which prevent dividends from soaring as much as profits, and these surpluses are drawn upon in years of very low profits or actual losses to prevent dividends from sinking as low as profits. Profits are an accounting item and therefore abstract, though they greatly influence business sentiment. Dividends are concrete and constitute actual monetary purchasing power disbursed through the productive system. Over a long period of years, however, there is a tendency towards approximation between the average of dividends and profits, so that the two may be spoken of as rough or approximate equivalents.

of production thus become the total earnings of the community or the aggregate incomes of the public.

Structure of Costs.

Again, the individual is interested in the size of the profit margin, which depends upon the relation between total costs and prices. Society is concerned not only with the relation between *total costs* and prices, but is vitally interested also in the *relative composition* of the whole cost structure, or the relative importance of the different elements of costs. Broadly speaking, society is keenly interested in seeing that a due balance is maintained between the rewards of labour and other low-income groups on the one hand, and of capital, management and risk-taking on the other, or between the share of the product of industry which goes respectively to wages and lower salaries and that which is distributed in the form of rent, interest, salaries of managerial staff and dividends or profits. And the interest of society in maintaining this due balance is not based only on socioethical grounds of justice and fairness, but on the imperative demands of economic necessity. The present economic society constituted as it is, must secure for labour and the low-income groups a proportionate share of the fruits of increasing prosperity on pain of forfeiting the very continuance of economic progress.

Wages: the Individual and Social Viewpoint.

Wages may be considered from the point of view of the individual worker, who is concerned primarily with what he gets. The wage rate is most important for his purpose, though he is not unconcerned with the state of employment among his fellows, for he may be affected by it sooner or later. But this latter aspect assumes a much greater importance for the community as a whole, which has also a different way of looking at wages. Wages may be viewed in their relationship to the returns paid out to other agents of production as the relative share of the total product of industry which goes to recompense labour. Thus the rate of interest may not increase as rapidly as the rate of earnings, but the amount of capital may increase so much more rapidly than the quantity of labour that interest may come to claim a larger share of the total product than before. An increase in the return per unit, even an increase relatively to other factors, is therefore perfectly compatible with a decrease in the share which the factor as a whole receives. And it is the share of labour as a whole that is implied when we speak of wages in relation to costs.

'Spending' and 'Saving.'

Wherein consists the precise importance of this due balance between wages and lower salaries on the one hand, and interest and dividend payments and higher salaries on the other? It lies in the fact that wages and lower salaries correspond[2] broadly and roughly with that branch of the stream of national income which is 'spent' and constitutes the *demand* for mass produced consumption goods, while the other components of costs form, in the main, an addition to the supply of 'saving' which, when it assumes the form of investment in plant and factories, has the effect of adding to the *supply* of consumption goods.

If at a given time the community's total earnings are so divided between spending and saving as to maintain a margin of profit which neither unduly stimulates nor damps economic activity, and if under these conditions of equilibrium, a shift takes place from spending to saving so as to alter their relative proportion in favour of the latter, then, whatever the form taken by this saving, idle bank balances or new factories, the result will be an insufficient purchasing power for absorbing the flow of consumer's goods coming on the market, with consequent contraction of profits; or, if the shift to saving is appreciable, actual losses to the producers of such goods. A whole dark train of consequences will follow. Only, if savings take the form of idle balances with the banking system rather than new factories, the profits in the capital goods industries will also suffer serious shrinkage, or disappear and even turn into losses, and the consequences will be more serious still.

Such relative 'oversaving' may occur, for reasons already explained, if a disproportionate share of the product of industry

[2] When we speak of such correspondence, it is by no means meant that the portion of the national dividend distributed as wages and lower salaries is all 'spent' and that no portion of that income is 'saved,' or that the entire flow of divided and interest payments and higher salaries, goes to 'saving' and that no portion of that part of the national income is 'spent.' It is true, however, that the principal part of the demand for mass-produced consumption goods comes from wages, lower salaries and the incomes of farmers, which may for the present purpose be reckoned together with wages. These categories of income, however, also contribute a small and comparatively stable part of the community's saving. Also, the principal part of the supply of saving and investment in advanced industrial communities arises from profits and interest on already invested capital, and the big salaries, commissions and allowances of the highly paid staff. The income of these classes is only to a relatively small extent spent upon mass-produced consumption goods. For the greater part, their expenditure constitutes a demand for luxury goods, which may be the products of highly specialized processes and may have a special market, rather than articles of general mass-consumption.

goes to capital and management. Whatever the circumstances which make for such a disproportionate distribution of the product of industry,—and we shall consider these later on—it is clear that a diversion of purchasing power from the making of consumer's goods to the creation of additional instruments of production is bound to bring disaster if it passes the appropriate point.

A Theory of Crisis.

But how exactly, one may enquire, will the issue of disaster work itself out? A deficiency of purchasing power for consumption goods will, in the first instance, lead to a fall in the prices of consumption goods. There are orthodox theorists firm in their faith in the tendency of consumption and production to balance one another, who would suggest that this very fall in prices enables the otherwise deficient purchasing power to absorb the flow of consumption goods, which could not be taken up at a higher price level. But this predicates a degree of plasticity in the price and economic structure which does not in fact exist and disregards the serious effects of an initial price-fall in the face of our complicated productive system. The automatic tendency to a balance between production and consumption may have been true of a barter economy, but does not exist in the very different society of our day characterised as it is by scales of money prices, production for profit under the capitalistic system, a great and increasing importance of fixed capital, and a division between those who own these capital instruments and those who work with them.

A cumulative process of breakdown may ensue progressively destroying purchasing power, production and employment in its downward sweep, and giving rise to conditions of settled depression in industry. There would, in the first instance, be a reduction of borrowing from the banking system, a decrease in the purchase of raw materials and a lessened volume of work and production. Some workers would become unemployed and a number of others might be under-employed. A greatly reduced quantity of monetary purchasing power would be distributed to the wage workers and the farmers, the decrease in which would be greater than the fall in prices. Purchases from retail stores would be appreciably cut down, the decrease in them being greater than the purchasing power distributed, for reasons explained below. The purchases of retail sellers from wholesalers will again fall more than their sales to customers, because the retailers will draw upon their little stocks to an increasing

extent, trying to reduce them in quantity when they are falling in value. The wholesalers in turn will order less from the factories than they have to supply to retailers, having their warehouses to deplete in the first instance. At each stage of the transmission of purchasing power through society a portion is intercepted and, so to speak, sterilized. Thus small decreases in purchases by consumers would result in appreciable decreases in sales by manufacturers. But this further decline of production by factories would still further reduce employment and raw material purchases, and the ruinous train of consequences traced above will follow again in a still more accentuated form.

This is only one channel of the course of precipitous decline of economic activity which may result from any appreciable disturbance of the balance between spending and saving, consequent upon a disproportion between the income going to the purchasers of mass-produced goods in the form of wages and lower salaries, and that going to the classes which use much the greater part of their income to increase the supply of instruments for the production of mass-produced goods. Other interacting consequences follow in close train.

First, a decline in the volume of consumer's goods is followed by a still greater decline in the volume of producer's goods. The significance of this exaggerated incidence of a decline in consumer's demand on producer's goods has been growing during the post-war years. These years of rapid technical progress have witnessed a great increase in the use of capital equipment and the extension of the production structure in time. The importance of this tendency to an increase in the length of the productive process consists in that it gives a greater " leverage " to the demand for consumer's goods. That is to say, variations in the consumer's demand at the end of the productive process are greatly magnified in their effect on the earlier stages of the productive-distributive process, as the structure of production is extended in time. Hence the serious effects of an attenuated demand for consumer's goods firstly on productive activity in the economic system and secondly on the incidental distribution of purchasing power—since the distributive process is so closely related with the system of production—which in turn has its cumulative repurcussions on productive activity in all stages, and so on.

Besides, falling prices which mean appreciating money, make consumers slacken their purchases, for they expect their money to buy more in the future. The velocity of circulation of money therefore falls, and with it the price level, which further entrenches upon profits, and further reduces production and

purchasing power and prices, and causes the velocity of circulation of money to fall still further, thus intensifying the decline and so on.

Again, growing unemployment makes those who are employed more and more concerned about their future and stimulates saving rather than spending on their part. The demand for consumers' goods falls and their prices too follow this decline in demand. The increased saving meanwhile is not invested, but remains lying in the banking system as idle potential purchasing power—a factor which has a specially depressing influence on the capital goods industries. The downward process is greatly quickened.

Moreover, contraction by one bank enforces a similar policy on other banks and the contagion spreads rapidly. The cumulative contraction of credit becomes a veritable cataract of decline, which the banking system may not be organised enough or strong enough to stem successfully.

The velocity of bank deposits also falls, accelerating the process of breakdown.

The failure of confidence, the gathering gloom of pessimism makes the forces of resistance too weak and helps in deepening the depression.

A process of competitive wage-cutting in the desperate attempt to restore the profit margins and stimulate industry decreases the purchasing power of the employed, their demand for consumption goods and the prices of such goods.

Each of these factors is cumulative in its depressing consequences, and a process of interacting breakdown is set into motion, following upon an insufficient increase of wages and lower salaries (and farmer's income, which may be included with wages in one group for this purpose) relatively to interest and dividend payments and higher salaries.

Evidence of Facts.

There is statistical evidence, at least for the United States, showing that this inherently potential cause of depressions was in actual operation in the years before the onset of the present great depression.

F. C. Mills in his celebrated study *Economic Tendencies in the United States*[3] gives figures for the increase of production of consumers' and producers' goods as well as the relative increase

3 Published in 1932, New York, pp. 269—80.

of the incomes of the different economic classes which constitute the principal demand for either category of these goods, during the seven pre-depression years.

	Total Increase (in percentage)	Average Yearly Rate of Increase (in percentage)
All consumers' goods	31	3·7
Capital goods ..	70	6·4
Total capital and consumers' goods ..	37	4·1

The purchasing power of the average earnings of the urban manual workers and low salaried groups, according to Mills increased by from 18 to 20 per cent during the seven years, which is about half the increase in the national output of all goods. The studies of Paul H. Douglas[4] also show a similar rate of growth, *viz.*, 20 per cent. in the real earnings of this class. For our present purpose the income of the farming community may as well be taken into account. The farming community includes farm labourers and farmers. Their income rose only by about 2 per cent from 1924 to 1929. The inclusion of the farmers would, therefore, lower the combined gains of rural and urban workers below the 20 per cent increase obtained by the latter group alone. The disparity between the flow of real income to the great groups purchasing mass-production goods and the volume of consumers' goods was, therefore, even greater than would appear if we exclude the farmers.

A similar conclusion is strikingly suggested by an examination of the proportion which wages formed of the value product added by manufacturing. During the six years from 1923 to 1929, the share which wages formed of the product of manufacturing industry fell from 43 per cent to 36·4 per cent—and if we include salaries it fell from 53·4 to 47·7 per cent—a remarkable shift in the distribution of the purchasing power between the different economic groups. In 1929 the value added by manufacturing was slightly over 6 billion dollars more than in 1923. But of this only something more than 600 million dollars, or 10 per cent of the total added value went to labour as addition of wages.[5]

4 *Real Wages in the United States 1890—1926.*

5 *Census of Manufactures*, 1929, quoted by Paul H. Douglas, *The Theory of Wages*, (New York, 1932), p. 186. See also *Economic Essays in honour of Wesley Clair Mitchell*, an essay on *Purchasing Power and Depressions*, p. 123, by Paul H. Douglas.

The other side of the picture is afforded by the increase in the return to capital and management at a rate far out of proportion to the increase of production itself. Thus Mills estimates that profits as a whole rose in the seven years by 83 per cent, the profits of the financial institutions increasing indeed by no less than 143 per cent.[6]

These relative trends are implicit in the indices of Relative Value Product per Employee in All Manufacturing and the Relative Real Wages from 1899 to 1926.[7] Until 1915 the index of real wages was invariably above that of average value productivity, but from then on it was almost invariably below that of value productivity, by an appreciable margin. The failure of wages to keep pace with the increase of marginal productivity of labour became pronounced after 1922. The index for 1899 being 100 for both relative value product and relative real wages, it stood at 131 for the former and 121 for the latter in 1922. Four years later in 1926 the index for relative value product per employee rose by 18 points to 149, whereas the index for real wages registered a rise only of 8 points to 129.

An interesting comparison is afforded by the following figures given by T. J. Kreps in the *Quarterly Journal of Economics*.[8] " From 1925 to 1929 labour income rose 20 per cent, while dividends and interest rose 65 per cent. And what had gone up highest did not come down first or most. In fact labour income began its percipitate decline in 1929 and in 1933 reached a level 65 per cent of that in the years 1923-25. Dividends and interest did not begin to go down until 1930 and in 1933 reached a level still 93 per cent of that ten years previous." The disparity revealed by these figures suggests an ominous prospect for the future. It indicates that capital in the aggregate is spared from bearing a proportionate share of the risks of business ups and downs; for while the wages and salaries of labour felt the full force of the decline in national income, the recepients of dividends and interest found their incomes not only increasing faster than national income during the boom but declining less than national income during the depression. " The disparity," Mr. Kreps goes on to point out, " may be of critical significance in analysis of economic

6 F. C. Mills, *Op. cit.*, p. 482.

7 Douglas, *The Theory of Wages*, p. 182.

8 August, 1935, p. 564.

equilibria and disequilibria. For if a disproportionate amount of national income is paid out as dividends and interest the result may be a disproportionate amount of the resources of production going to investment, *i.e.*, capital goods. Similarly the full[9] participation of labour income in the decline of national income may account in part for the piling up of stocks of semi-processed and consumer's goods and may accentuate cumulative weaknesses in the price structure. In short, this disparity may well reveal or be a symptom of a fundamental lack of economic balance. For economic disequilibria with their cumulative effect, are often, like chemical disequilibria, set rapidly in motion by only small percentage changes in rates of flow.[10]

That the greater part of the profits was reinvested is seen from the fact that the annual increment of capital goods increased during this period by 70 per cent. This meant a great increase in the capacity for turning out consumption goods which was far greater than expansion of the market for this class of goods. A severe set-back to the expansion of capital industries and an as severe fall in the prices of consumer's goods was sooner or later inevitable in such circumstances.

The fact that the disparity between production and consumption was " apparently becoming more and more real in the latter phases of the period (1922—29)[11] lends, therefore, a very considerable degree of support to the belief that here was one of the causes of the great depression. Industry adopted the fundamentally disastrous policy of pegging prices (more or less) in the face of technical advance and yet not increasing wages, lower salaries and the like sufficiently to permit the good to be taken off the market. Either wages and salaries should have been increased or prices allowed slowly to fall. There would have been some danger in this latter policy but not as much as in that which was followed, which ultimately necessitated a much more drastic reduction in prices.[12]

9 More than due participation in decline is probably implied

10 *Quarterly Journal of Economics*, August, 1935, p. 566.

11 The investigations of the Brookings Institute into the Distribution of Income in the United States published in two celebrated volumes *America's Capacity to Produce* and *America's Capacity to Consume* also bring out the increasing proportion of the national income which was being distributed in the form of higher incomes in the years before the depression and which may have led to ' over-investment ' relatively to the possible demand for the volume of consumer's goods resulting from the increased investment.

12 *Economic Essays in Honour of W. C. Mitchell*, op. cit., p. 127.

The disparity between the rewards of labour on the one hand and of capital and management on the other, may in no small measure have been responsible for the American boom and the subsequent severe relapse. The almost hectic investment activity during the latter part of the pre-depression septennial culminating in the speculative boom in security stocks was largely a direct result of the failure of wages and lower salaries to rise with interest, profits and higher salaries. The investment activity which arises from the savings of the richer classes, is peculiarly susceptible to violent ups and downs on account of excessive enthusiasm or shock to confidence, and enhances the instability of the economic system, and its liability to alternate periods of feverish activity and very low ebbs of stagnation.

Consequences of Raising Wages.

Having considered the effects of a failure of labour to participate proportionately with capital and management in the increase of production, we may turn to consider the effects of raising wage-rates in times of depression such as the present.

Short Run Effects.

A distinction must be made here between the immediate effect of raising wage-rates and the ultimate or long period effect of so altering the relative distribution of the national dividend as to increase the share going to labour and the other low-income categories. The immediate effect of an increase of wages, however financed, whether by drawing upon reserves or borrowing, will be to increase the costs of production. The increased costs of production will have either of two effects. They will either be charged into prices, wherever possible, in which case the increase of wages means no real increase of purchasing power; or they will impinge upon the profit margin, and consequently reduce output and employment, neutralizing whatever effect the increase of wages may have had in stimulating productive activity.

Long Run Effects.

An increase of wage rates during a time of industrial depression is unlikely to lead to immediate results by way of reviving economic activity. But the long run effect of causing a larger proportion of the national dividend to flow to the lower-income categories may be very far-reaching. Such a relative change in the distribution of the national dividend is likely to increase the stability of the economic system, making it less

liable and more resistant to industrial booms and depressions. "A redistribution of income in favour of the lower-income categories tends to damp down the investment boom on the one hand and support buying in time of depression on the other.[13] On the one hand with an increased share of the fruits of increasing prosperity going to labour, the prospects of profits as well as the actual profits would be reduced, and there would be less likelihood of excessive investment or a speculative boom which is generally the prelude of a slump. On the other hand, with an increase in the proportion of purchasing power distributed to the wage workers and salary earners, the demand for consumers' goods would be much better sustained in times of depression. Both the height of the booms and the depth of the depressions will be reduced, the fluctuations of economic activity would be evened out. 'Saving' which forms a large part of the income of the richer classes is likely to be used for investment in times of active trade and good profits, and the larger the income and the larger the prospect of profits, the greater will be the proportion used for investment; or alternatively in times when investment offers small hope of gain, such saving may lie idle in the banking system. Its effect on economic activity are peculiarly unbalancing, and the volume of such saving must not increase far out of proportion to the increase of labour income on pain of importing an element of additional instability into our economic system.

Economic Progress and Distribution.

The desirability in the long run of directing a greater part of the national dividend to labour being thus established, one is naturally led to inquire as to what will be the probable effect of economic progress, or its most characteristic indices—invention and increase of capital relatively to population, on distribution. Is economic progress (*i.e.*, invention and relative increase of capital), likely to raise or lower the proportion of the national dividend which goes to labour?

It is clear in the first place that invention must have the effect of increasing the total national dividend, but is unlikely to increase the marginal products of all factors of production in the same ratio. If we take only the two most important factors of production, we may classify inventions according to their

13 P. W. Martin, *Aspects of Economic Planning*, in *Economic Essays in Honour of W. C. Mitchell*, p. 384.

effect on the relative marginal products of the two factors, into " labour-saving," " capital-saving " and " neutral " inventions.[14] " Labour-saving " inventions increase the marginal product of capital more than they increase the marginal product of labour; " capital-saving " inventions increase the marginal product of labour more than that of capital; " neutral " inventions increase both in the same proportion. A ' labour-saving ' invention does not necessarily decrease the marginal product of labour, and consequently labour's absolute share in the Dividend, though it may do so if it is very labour-saving, but it does decrease the relative share of labour in the national income. Exactly the same holds, *mutatis mutandis*, of a ' capital-saving ' invention. Professor Pigou would make the definition hinge upon the absolute marginal product of labour and would define a labour-saving invention as one which diminished that absolute marginal product.[15] J. R. Hick's definition, which we have adopted above, seems to be better suited to our propose and more significant from the point of view of relative shares. Even so, there is no reason to question Professor Pigou's view that inventions have a decided bias in the labour-saving direction. The predominance of labour-saving inventions is due really to the fact that the spur to invention is afforded by the growing relative expensiveness of labour and is naturally directed to economizing the use of that factor. The tendency to a more rapid increase of capital than labour which has marked European history during the last few centuries has also naturally provided a stimulus to labour-saving invention, the type of invention which tends to reduce to relative share of labour in the Dividend.

Considering that the tendency towards an increase of capital which has been characteristic of past economic development may continue to operate in the future, it may be interesting to follow out its effects on relative shares. Increasing capital (relatively to population) will result in the first instance in a fall in the rate of its remuneration, the degree of this fall being determined by the elasticity of the marginal productivity curve of capital and this fall reacts in turn upon the supply or rate of increase of capital, the degree of this effect being determined by the elasticity of supply of capital. The fall in the price of capital will lead to a substitution of capital for the other factors. Whether the share of capital in the Dividend increases or decreases and

14 This classification is made by J. R. Hicks, *The Theory of Wages*, p. 121.

15 Pigou, *Economics of Welfare* Bk. iv., Chs. ii and iii.

by how much, depends upon the relative elasticity of substitution of capital.[16]

If the elasticity of substitution of capital is greater than unity, a fall in the unit return of capital will cause proportionately more units to be utilized and will hence increase the aggregate returns to capital and also its relative share in the total national income. In a state characterised by absence of invention this elasticity cannot continue for long to be greater than unity. In such a 'stagnant' state, moreover, the marginal productivity curve is likely to be relatively inelastic, *i.e.*, an increase of capital is apt to cause a comparatively rapid decline of marginal productivity and therefore of its unit return. Under such circumstances, therefore, the relative share of capital may increase for some time, but must diminish sooner or later, sooner rather than later, and that of labour rise.

Under conditions, however, of active invention and rapid technical progress, a given increase in the supply of capital is likely to lead to a smaller fall in the marginal productivity and therefore the unit returns of capital, and a given fall in the unit return of capital is likely to lead to a more than proportionate increase in the quantity of capital employed (since inventions are predominantly labour-saving). Elasticity of substitution is likely, under such conditions, to be high and to remain high so long as the period of active invention lasts, or so long as there is no slackening in the rate and effectiveness of invention (from the point of view of the degree of saving of labour effected). The relative share of capital will tend to increase and that of labour to fall. The absolute share of labour is not however likely to suffer a decline. The increase of capital will increase

16 Two able English economists J. R. Hicks and Joan Robinson have given precision to this conception of elasticity of substitution. Thus if the same ratios of labour and capital, for example, are combined together irrespective of the rate of return to either, the elasticity of substitution of one for the other is zero. If, on the other hand, "the smallest fall in wages (the cost of capital remaining the same) were to cause the whole output to be produced by labour alone the elasticity of substitution would be infinite." (Robinson, *The Economics of Imperfect Competition*, p. 257.) If a given fall in wages such as 1 per cent, cause the quantity of labour used jointly with capital to be increased in the same proportion by 1 per cent, and if a rise in wages should correspondingly result in an equal proportionate decline in the quantity of labour combined with capital, the elasticity of substitution may be said to be equal to unity or 1·0. If such a change in wages is accompanied by a more than proportionate change in the quantity of labour substituted for the other factor, then the elasticity of substitution is greater than unity, and if by a less than proportionate change in its quantity the elasticity is less than unity. The same applies *mutatis mutandis* to the elasticity of substitution of capital.

the marginal productivity and hence the real wages of labour, and may not ordinarily decrease the quantity of labour employed as much in proportion as the increase of real wages, unless very labour-saving inventions are taking place. And such very labour-saving inventions which may decrease the absolute share of labour in the dividend are those uncommon ones, the adoption of which would pay even without that change in the relative prices of capital and labour (meaning cheaper capital and more expensive labour), which has historically been a most important spur to invention. One may, therefore, share the optimism of Professor Pigou embodied in his belief that the equilibrium rate of real wages is most unlikely to decline with economic progress. " But it is difficult to feel the same degree of optimism in the matter of relative shares. For the chance of an elasticity of substitution greater than unity stands in an altogether different order of probability. Increasing capital, accompanied by stagnant invention, may very well raise labour's relative share in the Dividend, but increasing capital with active invention is very likely to do the contrary. And since the activity of invention is definitely favourable to the growth of the dividend—and with few exceptions also favourable to growth in the real income of labour—it is highly probable that periods of most rapidly rising real wages will also be periods of a falling relative share to labour."[17] In the light of the above paper this conclusion is of ominous significance for the future stability of our economic system.

If 'technocracy,' 'scientific management' and 'rationalisation' are not merely content with making labour more productive but continue to throw labour out of employment and to greatly increase the quantity of fixed capital in the attempt to cut costs of production, labour's relative share in the Dividend (*i.e.*, the marginal product of labour multiplied by the quantity of labour) may decline in spite of a rise of real wages for the employed workers. Besides these fundamental forces tending to a decline of the relative share of labour in the product of industry, there may be temporary factors preventing real wages from rising even in proportion to the increase of its marginal productivity. This may happen at times of improving trade and rising prices when wages are apt to lag behind and profits to become swollen, or it may happen during periods of rapid technical progress increasing the marginal productivity of labour far too rapidly for it to catch up fully.

[17] J. R. Hicks, *The Theory of Wages*, p. 180.

Our productive-*cum*-distributive system must secure for labour its full share of the fruits of increasing prosperity, a reward increasing at least in proportion to the increase in the rewards of the other productive agents. Individual entrepreneurs in their zeal to cut costs of production, and attain the maximum of profits, must not be permitted to cut the source of food from an increasing number of human mouths.

Sir William Beveridge in the discussion on Mr. Rambsbottom's paper read at the last annual meeting of the Royal Statiscal Society and published in the *Journal of the Royal Statistical Society*, 1935, Part IV, remarked to the following effect: unless it can be shown that labour is unlike any other ordinary commodity and that wages are not strictly determined by the laws of supply and demand you cannot easily get over the fact that a rise of wages must result in a decline in the demand for labour, and therefore an increase in unemployment. This is the entrepreneur's view very rigidly and tensely put. Wages are to the individual employer only an element in costs and nothing more. From the point of view of society the remuneration that goes to labour as a whole is not a mere cost element which should be reduced to the minimum possible, but is that important part of the national income which furnishes the main volume of demand for consumer's goods as well as the essentially sound basis of demand for producer's goods, and hence sets a limit to the rate of economic progress which is practicable at any moment.

LOW WAGES AND UNFAIR COMPETITION IN INTERNATIONAL TRADE

BY

H. L. DEY, M.A., D.Sc. Econ. (London),

University of Dacca.

I

Introductory.

The basic economic theory, which helps us to explain the origin and the outstanding facts of international trade, was formulated and completed in the first half of the nineteenth century, and its various implications and their bearing on questions of practical policy have been re-stated in recent decades by Marshall, Bastable, Taussig, Angell and Ohlin. The position now is that there is perhaps no other branch of economic science where a more complete agreement has been reached among the economists than in that of the theory of international trade. And yet, paradoxically enough, it is in this branch that there is a complete and obstinate divergence between the conclusions of economic science and the settled convictions of an immense number of responsible legislators and educated citizens. The result is that many of the ancient fallacies regarding the nature of foreign trade, which have been conclusively disposed of again and again by the process of economic analysis, still constitute the basis of action for vast groups of statesmen, law-makers and journalists, who directly or indirectly influence legislation designed to regulate the course of foreign trade.

One such fallacy, which has been often invoked in support of protective tariffs in the last half a century, relates to the effect of wages on the prices of internationally traded goods. It is argued that high or low prices of the exports of a certain country are mainly due to high or low wages, and that, therefore, a country of low wages can produce and export its commodities cheaper than a country of high wages. From this the inference is drawn that the former can invariably undersell the latter and thus bring down its rates of wages and standard of living, and that, therefore, a high-wage country can defend its standard of living against the attack of a low-wage country only by means of protective tariffs. This line of argument has been frequently

employed by the protectionists in the United States and recently by some of the British statesmen. Thus, for instance, Mr. Stanley Baldwin has expressed himself on the subject as follows: " The dry bones in the trade union world are stirring. Men are beginning to see that you cannot maintain your standard of life in this country so long as you leave that standard of life open to be attacked by goods coming free into the country and produced under conditions where the standard of life is lower."[1]

Now, to find out the basis of this widely current doctrine and its bearing on practical policy, we have to answer four related questions: First, what is the relation between national wage-levels and prices of internationally traded goods? Second, under what conditions can low wages confer a competitive advantage on the exporting country? Third, under what conditions can this advantage, if and when it arises, be regarded as unfair to the other competing countries in their respective home markets and in the neutral markets? And fourth, whether unfair or not, can this advantage of low wages derived by the country concerned be counteracted by tariffs and other restrictive measures?

II

Bases of International Price-Structure.

It is our common experience that in international trade each country imports certain commodities and exports certain other commodities. Even though a country may have higher levels of wages in all its industries than another, it is almost invariably the case that the former is both exporting some commodities to, and importing other commodities from, the latter. Thus, for instance, Great Britain, which is a country of high wages, imports pig iron from, and exports steel goods to, India, which is a country of low wages. This shows that a high-wage country can produce some commodities at a lower cost and other commodities at a higher cost than a low-wage country. The obvious inference is that high wages are not necessarily a cause of high prices, nor low wages necessarily a cause of low prices. From the flow of imports and exports between any such two countries, it is plain that in the high-wage country some prices are higher and some prices are lower; so also in the low wage-country. The explanation of this apparently paradoxical result is given by the theory of comparative cost founded by David Ricardo more than

1 *Vide* his Address at Kingsley Hall, London, reported in the Times, 26th November, 1930.

a hundred years ago and recently re-stated by Taussig in his three well known works[2] and latest of all by Ohlin.[3] As Ohlin restates the theory in a more comprehensive manner and with a greater approximation to the infinite complexities of real life than any other writer, it would perhaps be best for us to begin by briefly explaining the theory on the lines he has followed:—

Ohlin takes the position that international trade is but a special case of inter-local or inter-regional trade, "regions" being defined as area-units within the country such that the various productive factors are reasonably mobile within each area-unit but sufficiently immobile between the units themselves. The question is, what are the conditions of trade as between these region-units? The old classical doctrine founded by Ricardo suggested that a difference in comparative costs in terms of labour was both the cause and sufficient condition of international trade. The apparently defective assumption of this theory, that all labour units in the respective countries are of uniform quality (*i.e.*, freely interchangeable) and that differences in the relative labour costs alone are responsible for the origin of international trade and for determining the limits of that trade, has been supplemented by Taussig by pointing out that there are various grades of labour (non-competing groups) in each country and that these various grades of labour are combined with different proportions of capital in the different industries, leading to unequal supply prices of different commodities in each of the trading countries. In Ohlin's words, the reason for the divergent price-structures in the different countries lies in the divergent factor-structures existing in them. In each country, some factors are abundant in relation to demand, and therefore, their prices are relatively low, while other factors are scarce in relation to demand, and therefore, their prices are relatively high. Thus, in a particular country, land may be cheap, capital may be cheap, but labour may be dear. In another country, labour may be cheap, but not machinery or land. Obviously, in the first country, those commodities will be produced cheaper where much land or much machinery is used and little labour, and those commodities will be produced dearer where much labour is employed, but not much capital or land. In the second country, the situation will be just the other way round. And thus, between any two or more countries, when divergences in commodity-price-

2 Some Aspects of the Tariff Question, Ch. III; Free trade, the tariff and Reciprocity, Ch. IV, and International Trade, Ch. V.

3 Inter-regional and International Trade, Chapters I—VII.

structures emerge due to divergences in factor-price-structures, international trade becomes possible and profitable.

III

Wages and International Prices.

The theory of international trade as stated above on the lines of Ricardo-Taussig-Ohlin comprehends the possibility of an infinite series of divergences in the commodity-price-structures and the factor-price-structures as between any two countries in a dynamic world. We shall, however, try to bring out the bearing of this theory on the problem in hand by means of an example, though necessarily a simplified one:—

Let us take two countries, England and India, and two commodities, pig iron in ton units and cotton pieces-goods in units of 100 yards. Let us suppose that the relative price-structures in the two countries are as follows:—

In England, the price of 1 ton of pig iron	=	Rs. 30
„ „ „ „ 100 yards of piece-goods	=	Rs. 20
In India, the price of 1 ton of pig iron	=	Rs. 20
„ „ „ „ 100 yards of piece-goods	=	Rs. 25

Here, there is a difference in the relative prices of the two countries and international trade will become profitable to both. India will import cotton piece-goods from, and export pig iron to, England.

Now suppose that the wages in England are twice as high as those in India. Then, England can produce and sell cheaper to India all those commodities in the production of which her labour is more than twice as efficient as that of India; and India in her turn can produce and export to England all those commodities in the production of which her labour is more than half as efficient as that of England. Thus, for instance, if the daily rate of wages in England is Rs. 5 and that in India Rs. 2½, then, evidently, the production of 1 ton of pig iron requires 6 days' labour in England and 8 days' labour in India. In this case India will have the comparative advantage, because her 8 days' labour costs only as much as England's 4 days' labour. That is to say that the production of pig iron costs comparatively less in India than in England. Similarly, the production of piece-goods costs comparatively less in England than in India, in spite of the fact that English rates of wages are higher than

those in India. And this shows that high wages by themselves are not the cause of high prices nor low wages by themselves the cause of low prices.

The explanation is a simple one. If the daily rates of wages are different in the two countries and if these differences are exactly equal to the differences in the efficiency of labour in the two countries, there can be no comparative advantage or disadvantage on either side, so far as the wages are concerned. But, in the instance given above, we find that the two differences are not equal. The differential height of wages is greater than the differential height of efficiency in the pig iron industry of England, and the differential height of wages is less than the differential height of efficiency in her cotton textile industry. On the other hand, the differential depth of wages is greater than the differential depth of efficiency in the pig iron industry of India, while it is less in the case of the cotton textile industry of this country. It is just as conceivable that the wages are too high in the pig iron industry of England or that they are too low in the cotton textile industry of that country, as that the wages are too high in the cotton textile industry of India or too low in her pig iron industry, and any of these four alternative reasons may be responsible for the divergent price-structures in the two countries. But whatever the reasons may be, the outstanding fact remains that neither high wages by themselves nor low wages by themselves can be taken to be the cause of high or low international prices, and the conclusions of economic analysis in this matter are confirmed by our everyday experience.

IV

Low Wages and 'Unfair' Competition in International Trade.

In the case analysed above, we have seen that, between any two countries, if the margin of difference between the wages paid in the same industry of both countries is unequal to the margin of difference between the respective efficiencies of labour employed in them, then and then only can comparative advantage arise and give rise to international trade. Were there no such differences in the expense-efficiency ratios of different industries in the two countries, there would be no international trade and none of the countries could derive the advantages accruing from it. How are we to distinguish, then, between those conditions of international trade which are to be called as 'unfair' and those which may be regarded as 'fair'? What are the criteria of

wage rates that must be satisfied by a country before it can be called a fair competitor in international trade? How are we to define fair wages and say that all wages that do not conform to that standard or norm are unfair? Let us take the definition of unfair competition given for the purpose of the administration of the British Safe-guarding of Industries Act of 1921. Competition is held to be unfair when the exporting country is benefited by exchange depreciation, bounties or subsidies, or inferior conditions of employment either in respect of remuneration or hours of labour or otherwise.[4] Now, there are two senses in which the phrase 'inferior conditions of employment of labour in respect of remuneration' may be interpreted: First, it may mean that the competition of all countries where the rates of wages are less than those in the corresponding industries of England is unfair. Concretely, this will mean that England should put restrictions on the import trade from Germany, Italy, France, Belgium and Denmark, in all of which wage rates are lower than what they are in the corresponding industries of England. But, if this view is universally adopted, it will further mean that the United States, Canada and Australia should heavily penalise the imports of manufactured goods from England, because the English wage rates are lower than those in those countries. If the doctrine is pressed to its furthest limit, it will ultimately mean that there will be no trade between manufacturing countries or between agricultural countries. The only kind of international trade to be permitted will be that between agricultural countries and manufacturing countries. Not even this. Since, every agricultural country can produce most manufactured commodities and every manufacturing country can produce most agricultural products at a cost, the whole of international trade will be reduced to a tiny fraction of what it is now: It will just consist in the exchange of those few products which are the specialities of different countries due to the peculiarities of soil and climate.

Secondly, the phrase in question may be intended to imply condemnation of only abnormally low wages and not all low wages in a low-wage country. If we take the words 'normal rate' in the Marshallian sense of long-period equilibrium rate, then an abnormally low rate will mean a rate of wages which is below the expenses of the standard of life, which is customary with the class of labour in question. Now, as in the case of

[4] Report of the Indian Tariff Board (Cotton Textile Industry Enquiry), 1927, Vol. I, p. 69.

commodities, so in the case of labour or any other factor of production, the demand price cannot long remain below the supply price (*i.e.*, in the case of labour, the expenses of the standard of life) except when the supply is inelastic. In the short period, of course, as is well known, the supply of many commodities as well as that of the factors of production may be inelastic, because of transfer difficulties. But, in the long period, as a rule, the supply of both commodities and factors will be elastic so that the current prices or prevailing rates of remuneration (demand prices) will be nearly in equilibrium with the costs of production (supply prices). There are, however, two conceivable situations in which the wages of labour may fall below the expenses of the present standard of living for a fairly long period. First, the existence of rigid non-competing groups. In this case, the wages of labour in a particular industrial occupation may be lower than in similar occupations in other industries in the same country, and yet there can be no transfer from the former to the latter on account of inflexible barriers. But, with the growing use of automatic or semi-automatic machinery, spread of education and knowledge, development of the facilities of transport and communications, many of the old barriers between trade and trade are disappearing. Nevertheless, in many countries, this type of immobility still continues to make the supply of labour in certain occupations rather inelastic. Nor is it likely that the supply will be cut down in a generation or two by disease and death due to the lowering of the standard of living, because, as the present depression has shown, the customary standard of living is a highly elastic standard; it can go down to the very margin of the subsistence level without affecting the supply.[5] Such a situation may exist over wide stretches of the industrial area in what are called backward countries. But, there is considerable evidence to show that this has also been happening to some extent in the industrially advanced countries as well during the last few years of the depression. In a situation of this kind, abnormally low wages may persist in a particular occupation for a fairly long period due to the inelasticity of the supply of labour.

The second set of circumstances in which abnormally low wages in a particular occupation may continue for a long time is met with when there is a rapidly growing population, specially in the lower strata of society, which supply unskilled labour. If the rate of growth in the supply of this type of labour is greater

5 Taussig—Free Trade, the Tariff and Reciprocity, pp. 90—94.

than the rate of growth in the demand for it, abnormally low wages are likely to persist indefinitely. And this will confer an 'unequal' advantage on those industries that employ a large quantity of low-grade labour. A situation of this type existed in the iron and textile industries of the United States in the pre-war period due to the enormous influx of low-grade immigrant labour from the southern and eastern states of Europe. It was also true of the German chemical industries, which had access to a comparatively large supply of low-paid chemists and chemists' assistants created by a wide-spread system of technological education.[6] A too rapid flow of middle classes into the chemical industries led to the existence of a vast army of 'learned beggars,' just as we have been witnessing in India in recent years in respect of similar middle class occupations. But the largest case of this type is to be found in those countries where the standard of living is particularly low and elastic, permitting an immensely high rate of growth of population, which causes a tremendous and even overwhelming influx of unskilled labour, keeping the wages abnormally low. This appears to be the case with the textile industries of Japan, which draw upon an inexhaustible reservoir of girl operatives at particularly low wages. An analogous description will also be true of farm labour in India.

These, then, are the conditions in which the wages of labour in particular industries of different countries may remain below the equilibrium rates for short or long or even long periods, due to the inelasticity of supply of one or more grades of labour. And when such conditions prevail, they do undoubtedly confer a comparative advantage, or if we like, 'unequal' advantage on those producers who employ large quantities of such grades of labour. It is true that such conditions prevail over wide areas particularly in the low-standard countries, due to a very rapid growth of population. And perhaps it is to the competition of these countries that the American tariff-makers usually refer as the unfair competition of pauper labour and Mr. Baldwin refers as the attack from countries with low standard of living. We may, of course, call this kind of advantage as an 'unequal' advantage, exactly in the same sense as we may regard the advantage of particularly cheap land or capital. But, can we describe this as an 'unfair' advantage in competition in any accepted sense of the term? We speak of 'fair play' in connection with the conventional rules of games. Where any player or side is

6 Taussig—International Trade, pp. 57—60.

deliberately violating any of the conventions, there is said to be 'foul' play. But, when particular industries in a country derive the advantage of inelastic labour supply and abnormally low rates of wages, they are only utilising a peculiar factor-structure which they cannot help, just as was the case with the textile industries of the United States and the chemical industries of Germany in the pre-war period. Moreover, such a situation may exist when the demand for labour is rapidly falling during a serious depression like the present one. From all these considerations, it is abundantly clear that the advantage of abnormally low wages derived by particular countries under conditions of inelastic supply of labour cannot be called as 'unfair' on any grounds of logic or convention.

V

International Trade and its Effect on Low Wages.

But, it is correct to hold that the competition of countries with abnormally low wages will subject the wage-levels and the standard of life of the corresponding groups of labour in a high-wage country to a severe strain, due to short-period inelasticity of supply of labour in normal times and fairly long-period inelasticity of supply of labour in a time of acute and obstinate depression. The question, therefore, is, will tariffs and other measures of trade restrictions help to safe-guard the standard of life in the high-wage country against the attack of the low-wage country? And will they correct the disadvantage arising out of inequality of wages in the two countries?

First, let us enquire what is the effect of international trade on such unequal conditions. From the basic conditions of international trade explained in the preceding sections, it follows that each country will export those commodities which embody a large quantity of the relatively abundant and cheap factors and import those commodities which embody a large quantity of other factors which are relatively scarce and dear within itself. Consequently, due to the exports, the demand for the relatively abundant and cheap factors will be greater than before and their rates of earnings, too, will tend to be higher than what they would be in the absence of international trade. Similarly, its imports will mean a reduction of the internal demand for the relatively scarce and dear factors. Hence, their rates of earnings will tend to be lower than what they would be in the absence of international trade. Therefore, this export-import trade produces the

same effect as would have been produced by mobility of labour between industry and industry. It thus promotes indirect elasticity in the supply of labour and strengthens the tendency towards equilibrium between demand and supply. International trade, therefore, tends to remove, or at any rate to minimise, the unequal or 'unfair' advantage, which is so frequently complained of. As Ohlin puts it, "trade consequently acts as a substitute for the movements of productive factors and reduces the disadvantages arising from their immobility."[7] This is true both of inter-regional and international trade. And the advantage of indirect mobility and elasticity is derived by both the countries. It removes inequality in the home country, and therefore, it tends to encourage the optimum employment of the factors of production and to promote the optimum standard of living. And, by removing inequality in the foreign country, it tends to eliminate the foreigner's so-called 'unfair' advantage of relatively low wages.

Alternately, we may ask the question, what will be effect of hindrances to international trade on the so-called 'unfair' advantage? And the answer to this second question is implicit in that to the first. Our analysis has shown that such 'unfair' advantage of low wages can only arise due to inelasticity of the supply of labour and that, so far as international trade promotes mobility of labour and elasticity of its supply, it tends to raise wages to a higher level than would otherwise be the case. Thus it tends to eliminate the 'unfair' advantage. Negatively, it follows that, to the extent that international trade is hindered by penal tariffs and other restrictive measures, mobility is also hindered, elasticity of supply is diminished, and abnormally low level of wages persists. Consequently, trade barriers will perpetuate the very evil which they are avowedly designed to eradicate. Moreover, due to the withdrawal of the gains that accrue from international trade, the low standard of living of that particular group of labourers in the foreign country, which is a cause of inelastic labour supply through a rapid growth of population, will lose the powerful support of international trade and will tend to remain low. It may even become lower still due to the cumulative effect of poverty. Consequently, the 'unfair' advantage of low wages will also persist and even tend to become greater, thus creating a sort of vicious circle of lower wages and higher tariffs, each aggravating the other in turn.

[7] Ohlin, op. cit., pp. 96-97.

The reverse side of the picture, too, will be equally dark. Because, the hindrances to trade, in so far as they stand in the way of mobility of labour and optimum employment of the factors of production, will also keep the standard of living in the high-wage country lower than what it would be under international trade. Thus, the high-wage country, instead of being able to keep its standard of life, will tend to bring it lower. Therefore, from this aspect of the case, too, the result of trade barriers will be the exact reverse of what they are intended to achieve.

It is thus abundantly clear that tariffs and other trade barriers will be the least efficacious means of remedying the state of 'unequal' advantage arising out of low wages and low standard of life, which it has almost become fashionable to condemn and penalise out of hand. It is rather like the famous old method of attempting to cure the patient by beating him black and blue. But the more modern and scientific method of treating the disease would be to aid the low-wage country to enlarge its national income and improve its standard of living by such measures as encouragement of international trade, promotion of economic development through international loans, and perhaps also international regulation of the hours and conditions of work. As in the field of international politics, so in that of international economic relations, the path of escape into a better state of things will lie not through mutual hatred and reprisals but through reciprocal goodwill and steady and intelligent co-operation.

The main aim of the present essay, however, is not to suggest proper remedies. We set out to investigate how far those remedies that are proposed or applied at the present day are appropriate or otherwise, and this task, we hope, we have been able to accomplish to a small extent.

A NOTE ON COSTS AND PRICES IN "DOMESTIC" AND "EXPORT" INDUSTRIES

BY

P. CHAKRABARTTY.

I propose to examine, in their broadest outline, some aspects of the inter-relations between costs and prices in the "export" and in the "domestic" industries in any one country. A comparison of the cost structures of different industries in two countries trading with each other would show, in equilibrium, the same ratio as between marginal costs in each country as regards "international" goods. But when "domestic" goods are taken into account, a difference in marginal cost ratios is probable, since the levelling influence of trade is absent in their case. It might, of course, happen that even with respect to these, the cost-ratios would be the same, but this is generally a fortuitous coincidence. On these grounds Taussig urges that "prices of domestic goods obey laws of their own." He goes on to add that, "so far as the effectiveness of labour in producing domestic goods is great (great, that is, in comparison with that of labour applied in other countries to the same goods), they will tend to be lower in price."

These observations, however, need to be carefully interpreted. We may agree that, as between two trading countries, that one will have a higher range of domestic prices in which the marginal cost of domestic goods is relatively higher, as compared with the marginal cost of "international goods." It is, however, important to insist that the unit for measuring cost need not be the same in both countries; the above statements would be true with two different units or standards for measuring cost in the two countries, provided only that, within each country, the same standard or unit is applied in every industry. Further, we are not to suppose that if domestic prices in two trading countries happen to be the same, it necessarily means that the marginal product of labour, measured in physical units, would also be the same in both countries. All that we can infer is the relation between marginal cost ratios in each country—not the relation between the physical volumes of the marginal products of labour in the domestic industries in the two countries, as Taussig's presentation might lead us to assume.

Mr. Harrod has argued that as to domestic goods in different countries, "It is doubtful if differences in efficiency occur on so great a scale," and he therefore favours a more unqualified answer to the effect that the price-level of purely domestic goods "will be higher in the more efficient countries." Here also it is necessary to remember that differences in efficiency are to be understood with reference, not to the absolute physical amounts of marginal products in the same industry in both countries, but with reference to marginal cost ratios in each country. It may be submitted that the course of economic evolution, since it has the effect of lessening the relative importance of "acquired" causes of superior efficiency in trade, is likely further to make domestic prices higher in the more efficient countries.

We may now turn to Taussig's observation that the "prices of domestic goods obey laws of their own." Taussig has admitted that *changes* in domestic prices are associated with changes in money wages, and therefore with changes in effectiveness of labour in the export industries. At best, the statement is careless. It seems to imply a clear-cut distinction between prices in "domestic" and in "export" industries. But, since both types of industries are equally in need of the factors of production, which we must suppose to possess intra-national mobility, and, further, since an attraction of these factors to the "export" industries can only result, at least in the short period, in a relative scarcity in the "domestic" industries and *vice versa*, it is difficult to see how we can completely isolate "domestic" prices from "international" prices. If, to these considerations are added the further considerations about the operations of the laws of returns, consequent on the movements of trade, and those about changes in international demand, we find further grounds for dissenting from Taussig's categorical statement.

It must be remembered that in his approach to the problems of international trade, Taussing does not lay much stress on the operations of the laws of returns. His analysis assumes, in general, constant returns. But we may urge that this does not necessarily extend to "domestic" industries, and in so far as movements of trade divert the factors of production into the "export" industries, the general presumption should be the operation of "increasing cost" in the "domestic" industries, except in so far as the increase in the supply of the factors of production keeps pace with their diversion to the "export" industries—and as to this indications are rather the other way about. As to changes in international demand, not only with respect to goods that lie on the border line between "inter-

national " and " domestic " goods, but even with respect to those goods whose " domestic " character is derived from special national peculiarities of demand, it must be admitted that a widening of the range of international trade may by itself modify these differences in peculiarities. To contend that these relate not to the strictly economic effects of trade, is to interpret " economic effects " rather narrowly.

Mr. Whale has pointed out that " the conditions of domestic production in a country have an indirect influence on the level of money incomes earned in production. A country well able to provide its own requirements for itself will only carry on foreign trade on terms favourable to itself." The contention is well-grounded, and points to a qualification of Taussig's assertion.

This very brief examination points to the need for the exploration of these inter-relations in the light of the marginal cost analysis, with proper attention to the fact that the demand for the factors of production in any country is made up of " domestic " and " export " industries equally, and also to the influence on cost-structures of the operations of the laws of returns and of changes in demand. Unless qualified with reference to all these influences, any bare statement about prices or efficiency in " domestic " industries will give a false idea, and will emphasise unduly the differences between " domestic " and " international " prices.

WAGES AND COSTS IN INTERNATIONAL TRADE

BY

K. B. SAHA, M.A., Ph.D.

Dacca University.

The principle of comparative costs, as enunciated by the classical economists, states that international trade is based on a difference in comparative real costs of production, and that a country will produce for export those commodities in the production of which it possesses real comparative advantage. This theory holds good so long as we assume that the factors of production have a free mobility within the same country. The gains from international trade arise from the specialisation of each country in those industries in which it possesses comparative advantage. This involves a transfer of the factors of production to those industries from others in which there is no comparative advantage.

If the factors of production do not possess this free mobility in a country, and if, for this reason, values of things are not in proportion to their real costs of production, international trade may take a course quite different from what is indicated by the principle of comparative costs. Suppose, there are two countries A and B, producing two commodities, x and y. A dose of productive factors produces in both countries 10x or 20y. Since the comparative costs are the same in the two countries, there cannot be any trade between them according to the theory of comparative costs. But if the values of x and y in B are not in proportion to their costs of production, due to the absence of mobility of the productive factors in that country, there may be trade. Let us assume that there are non-competing groups of labour in B, and labourers who produce the commodity y in that country are in a very unfavourable position. This may be due to a relatively small demand or a relatively large supply. Suppose that, for this reason, 10x exchanges for 25y in the country B. The comparative values of x and y are thus $10x = 20y$ in A, and $10x = 25y$ in B. In these circumstances, there will be trade between the two countries, A exporting x, and B exporting y. Any rate between 20y and 25y for 10x will be acceptable to both. We thus see that international trade is based on a difference

in comparative values and not on a difference in comparative costs, when there is a divergence between the two.

Taussig explains this thing by introducing the question of money wages and prices. Taking, for the sake of simplicity, labour as the only element in the cost of production, he shows that the existence of non-competing groups calls for a modification of the theory of international trade as based on a difference in comparative real costs of production. Thus he says, " International trade, however, like domestic trade, is proximately a matter of money sale and purchase. Goods do not exchange directly for goods; they are sold for money and bought for money."[1] A commodity will be exported, if its money cost of production is low and it can be sold at a profit to foreigners. The real cost of production of a thing in a country may be high, and there may be no comparative advantage in its production. But if it is produced by a ' low-lying ' non-competing group of labourers receiving relatively low wages, its money cost of production or domestic supply price will be low. It will therefore be a suitable article for export bringing profits to its producers like other things in the production of which there is real comparative advantage.

This effect of the existence of non-competing groups on international trade takes place only when the situation in this respect is peculiar to a country. As Taussig says, " If the groups are in the same relative positions in the exchanging countries as regards wages—if the hierarchy, so to speak, is arranged on the same plan in each—trade takes place exactly as if it were governed by the strict and simple principle of comparative costs."[2]

Under a money règime, international trade depends on a difference in comparative money costs of production, *i.e.*, comparative prices. If there is no difference in comparative prices, trade cannot go on between two countries, although there may be a difference in comparative real costs of production. Assuming a free mobility of factors other than labour, or taking labour as the only element in the cost of production, a divergence between comparative real costs and comparative prices of things in a country cannot arise, if non-competing groups of labour do not exist or if, when they exist, their relative positions are the same in the trading countries. Exceptionally low or high wages

[1] Taussig, International Trade, pp. 44-45.

[2] Taussig, International Trade, p. 47.

in proportion to the productivity of labour will modify the course of international trade, if the situation in this respect is peculiar to a country and not common to all.

When international trade is based on a difference in comparative costs, each country specialises in the production of those commodities in which it has real comparative advantage. As a result of this division of labour, the aggregate output of the trading countries becomes larger than before, and it is this additional output which is the source of the gains to the trading countries. The influence of non-competing groups, when it is exerted, is to disturb this international division of labour based on comparative advantage. Hence it cannot increase the aggregate output of the trading countries in regard to the commodities in which they specialise. It seems clear that, when international trade is modified by the existence of non-competing groups, there is no possibility of its gains being increased thereby, considering the interests of all the trading countries concerned. On the other hand, there is a great probability that, in so far as the international division of labour on the basis of comparative advantage is disturbed by this influence, the total gains to the trading countries will be diminished. Under non-competing groups, a country exports a commodity not because it has comparative advantage in its production, but for the reason that it is able to produce it at a sufficiently low money cost by paying an unfavourably situated non-competing group of labour exceptionally low wages. This is diverting the productive resources to relatively inefficient lines. It may bring profits to that section of the people of a country which produces and exports it, but the aggregate gains of the country as a whole are likely to be diminished by this sort of international trade.

Let us revert to the illustration given above. A dose of productive resources produces 10x or 20y in both the countries, A and B. Owing to the existence of non-competing groups in B, the producers of y in that country receive very low wages, and 10x exchanges for 25y in it. In the other country, non-competing groups do not exist, and 10x exchanges for 20y there. In this case, there will be trade between the two countries, B exporting y, and A exporting x. Exchange may take place at any rate between 20y and 25y for 10x. If the actual rate is 23y for 10x, the producers of y in B gain 2y, and those of x in A gain 3y in each exchange. But this gain of the producers of y in B is at the cost of the producers of x in that country. This latter class of people were hitherto getting 25y for 10x. When x begins to come from A and is sold at the rate 10x for

23y, they have either to accept that rate or take to the production of some other commodity. Some of them will probably undertake the production of other things. But those who continue to produce x will obtain now no more than 23y for 10x, so that in each transaction they get 2y less than before. It may, therefore, be said that in such a case what one section of the people gains, the other section loses, and the country does not derive any net gain. Again the producers of y in A have to sell 23y for 10x, if they continue to produce that commodity. Compared with the former rate, this means a loss of 3y to them in each transaction. Here, also, we see that what one section of the people gains, the other section loses.

Again, the existence of non-competing groups may bring about an equality of comparative prices of things in spite of a difference in their comparative costs of production. In this case there will be no international trade, though it ought to take place according to the principle of comparative costs. Here relative wage differences due to the existence of non-competing groups prevent international division of labour which otherwise would take place, and thus make it impossible for countries to derive any gain from trading with one another. Suppose that 10 days labour produces 10x or 20y in A, and 10x or 30y in B. If wages are uniform, trade will go on between the countries, A exporting x, and B exporting y. Then aggregate production of x and y will increase when this specialisation takes place. But under non-competing groups, the rate of wages earned by the producers of y in B may be 50 per cent higher than that obtained by the producers of x in that country. In the country A, let us suppose that the same rate of wages prevails in the two industries. The comparative prices of x and y will be the same in the two countries, and so there cannot be any lasting trade between them in these commodities. Thus relative wage differences may disturb international division of labour on the basis of comparative advantage, and may therefore reduce the gains from international trade.

Let us consider the bearing of the wage element in cost on the competition among different countries. It has often been said that the competition of countries in which the standard of living of the worker and, hence, wages are low against countries with a high standard of living and a high wage rate in the production of goods for the international market is unfair. On this ground, the help of protection has often been sought in the United States of America and other countries. The principle of equalising costs of production as an argument for protection is

really based on this supposed unfair competition of low-wage countries.

The prevalence of low wages in a country does not necessarily give it any advantage in international trade. As is well-known, high wages do not mean dear labour, nor do low wages mean cheap labour. The dearness or cheapness of labour depends on wages as compared with efficiency. In a country of high wages, if the productivity of labour is equally high, labour will be cheap, so far as its effect on supply price is concerned; and the country will have no disadvantage in competing with others in international trade. On the other hand, if the efficiency of labour is low, the prevalence of low wages will be of no advantage to a country in its competition with others. This is amply proved by the large export trade of such countries as the United States of America, where, in spite of, high wages, the producers can supply their product to foreign countries at a sufficiently low price. If low wages are accompanied by high productivity of labour, the supply price of commodities will be low, and such commodities will find a ready market in foreign countries. The competition of such a low-wage country seems to be a serious menace to another where wages and standard of living of the labourers are high. The supply price of goods suitable for international trade may be all lower in the former than in the latter. This sort of price difference may exist in isolated condition. But, once, international trade begins, it cannot continue except for a short period. If prices of goods suitable for foreign trade are uniformly lower in one than in another, there will be one-sided trade between the two for some time. The former will export goods, and the latter will export gold. This will raise prices and wages in the country which will receive gold and depress them in the other. In this way, the difference in prices between the two countries will eventually disappear and trade between them will stop. The high-wage country will then have no fear of being undersold by the low-wage country.

In real life, however, it is extremely unlikely that prices of exportable goods will be uniformly lower in one country than in another. This means there is no difference in comparative prices of these commodities. An equality of comparative prices implies an equality of relative factor prices in proportion to efficiency. It is highly improbable that the conditions of the supply of factors and their demand in two countires will be such as to bring about this result. Land and labour in a country do not possess free mobility between different industries, and the relative positions of different types of land and labour

can never be expected to be the same in different countries. Thus differences in comparative prices of things between different countries are bound to occur giving rise to international trade. A country with lower wages and lower prices of goods in general will find it profitable to import some goods from another country in which wages and prices are higher. At the outset, she will export goods and import specie. But the inflow of specie will raise wages and prices in it until, after some time, the prices of some goods are higher in this country than in the other. There will then be bilateral trade between them, each selling goods to the other and buying goods from it in return.

It will be clear from the above that a country in which wages and prices are higher than in another will be able to sell goods to the latter at a profit. There is no justification for the fear that a high-wage country will be undersold all round by a low-wage country. Even if the low-wage country has got lower supply prices of all exportable goods, her advantage in this respect will not be the same in all of them. She will then produce for export only those goods whose supply prices are comparatively the lowest, and import the rest from the other country. The reason why there is an outcry against the competition of such low-wage countries is mainly the fact that it prejudicially affects the interest of particular industries in a country. The producers of a certain commodity, hitherto, in secure possession of the home market, suddenly find that another country with a lower supply price of the same commodity has begun to attack their home market and undersell them. The lower price of the foreign commodity may be due to the low wages of labour in proportion to efficiency. If the foreign producer is permitted to complete with the domestic producers without any restriction, it may imply the eventual transfer of the productive resources from that industry to others. Such transfer will always mean suffering and loss to those people who are employed in the industry. But to shut out the foreign product on this ground is to reject the gains of international trade. The opening up of trade between two isolated countries always involves the transfer of productive resources from some industries to others, causing loss to some people in the country. But this loss to a section of the people is more than outweighed by the gain which the country derives from obtaining the commodity at a lower price permanently.

It is difficult to draw any line of distinction in this respect between foreign competition that is based on low wages of labour and that which is based on other advantages, such as,

greater natural resources or better methods of production. From the standpoint of the country, as a whole, the gains derived from the cheap import of a commodity are no less real or desirable when the cheapness of this foreign product is due to low wages than when it arises from other advantages. In any case the importing country obtains the commodity at a lower cost to itself, and so the national dividend increases. Even from the standpoint of labour in general, the importation of such goods from abroad is a gain. An increase in the national dividend means an increase in the share in it that goes to labour. The importation of this kind of cheap goods therefore tends to increase the real earnings of labour, although some particular section of it employed in their production at home may be prejudicially affected.

Is this competition unfair to the domestic producers? In answering this question, it should be borne in mind that the mere prevalence of low wages in a foreign country does not make this competition effective. It must also be accompanied by a relatively high productivity of labour. The domestic producer will equally suffer if the foreign rate of wages is as high as the domestic rate, but if the efficiency of labour is higher in the foreign country than at home. If the former kind of competition is unfair, then the latter is clearly so. In either case the foreign labourer receives a remuneration which is low relatively to his productivity.

It is important to note that, under international trade, there cannot be a wide divergence between the productivity of labour and its earnings in a country. Such a divergence may exist in the case of any particular non-competing group of small importance. If the wages of labour in general are substantially low relatively to its productivity, the supply prices of exportable goods will be lower in that country than in others. It will then have a large favourable balance of payment, leading to an import of specie and, hence, a rise in wages and prices. Even if the country is under inconvertible paper, the favourable balance of payment will lead to a rise in the exchange rate, so that the wages of labour and the supply prices of goods made in the country will rise in terms of foreign currency.

WAGES IN RELATION TO COSTS

BY

P. DATTA, M.A., PH.D. (ECON.),

Department of Commerce, Vidyasagar College, Calcutta University; and Board of Editors, The Indian Economist.

Economists have not given adequate attention to the relation between wages and costs of production. Only vague references to this relation can be observed in discussions on the theory of wages. Economics has not yet been able to shake off its all pervading influence of the theory of value in which "costs" occupy a subsidiary place. Nevertheless, the relation between wages and costs is of considerable practical utility. In the literature of the trade unions and trade associations categorical statements are commonly made on this subject. The advocates of the interest of labour make it a strong plank in their arguments that higher wages lead to greater efficiency and consequently lower costs. The verdict of the economists seems to be in favour of this view. The employers of labour often look upon increment of wages with disfavour as it enhances the costs of production. Recently relation between wages and costs has found prominence in statements refering to international competition. The rise of Japan in the international market is held to be due to lower wages-level in that country, while the handicap of Lancashire is attributed to higher costs for wages. The problem here is whether low wages are compatible with higher efficiency in order to extend competitive advantage to a country like Japan. It is the task of this paper to bring these opposite views to the test of rational analysis. No experimental investigation into the reaction of increased earnings of labourers working under the same environment upon efficiency has so far been made. All statements in the following pages are therefore based on a method of rational deductive reasoning. In order to make the discussion consonant with practical phenomena, wages have been taken to mean " money-wages " working under the same environment, and costs to mean money costs, *i.e.*, expenses of production. Efficiency of production is to be judged from the costs so that

greater is the efficiency of the work-people the greater is the number of units produced and lower is the cost per unit, taking the quality to be the same. Variation in the "internal" and "external" purchasing powers of money has been left out of consideration.

To what extent and at what rate efficiency increases along with a process of higher wages depends upon the traditionally *ideal standard* of living of the class of people to which the labourer belongs and the deviation of his *actual mode* of living from this ideal standard. That standard of living is the ideal, as the economist would define it, which results in maximum efficiency and minimum cost. In thoughts and ways of life the Behari labourer is wedded to one ideal standard and when it is achieved maximum efficiency is reached by him. Similarly the Bengali labourer holds within himself another ideal standard of life. Such differences exist in the very conception of the ideal standard of life among the Japanese, English and German work-people. Similar differences exist not merely among workers of different countries but among the workers of different non-competing groups. This standard cannot be definitely defined but is determined by climatic conditions, traditional habits of life, customs, social heritage, and religious and moral ideas. This difference in the ideal standard can account for the existence of different rates of wages in different countries with the same standard of efficiency. Commodities of the same quality can be produced in different countries or among different races of the same country at different costs in so far as these costs are determined largely by the wages paid, other factors remaining the same. Higher wages may increase efficiency in the same country or of the same group of work-people, but equally high wages are not necessarily required for the same efficiency or the same level of costs in different countries or groups of people. Relatively lower wages may result in lower costs even without prejudicing the quality of the product.

A corollary to the above conclusion is that as the ideal standard of life is almost fixed for a class of people at a particular age, or at least over a sufficiently long period, there is a limit upon the efficiency that can be obtained with increase in wages. Costs cannot be reduced indefinitely by increasing the wages without limit. When and where that optimum is reached depends upon individual experience after a series of experiments, upon the nature of work, upon the class to which the labourer belongs, and a number of other considerations. This optimum may shift at times with new discoveries about food, house construction,

knowledge of preserving health, ways of hygienic living, or even in the improvement of the technique of work in which the labourer is engaged. But so long as these conditions remain unaltered, the limit upon lowering of the costs holds good.

The relation between the rate of increase in the wages and the rate of decrease in costs from points below the optimum, is not also the same. If the commodities for human consumption which contribute towards efficiency be divided in accordance with Marshall into three categories, *viz.*, necessaries, conventional necessaries, things for habitual comfort, then the co-efficient of correlation between wages and efficiency will vary in accordance with the capacity of the wages to satisfy one or more of these factors of efficiency. If the labourer earning a particular rate of wages is on starvation level and he cannot even fully satisfy the urgent necessaries of life, then a small increase in wages will contribute considerably to his efficiency. If on the other hand the existing wages are sufficient for satisfying his necessaries, and conventional necessaries, further increment of wages for enabling the labourer to purchase things for habitual comfort, may increase the efficiency but not on the same scale as before. In other words, every equal increase in the wages may at first increase efficiency at an increasing rate but will subsequently increase it at a diminishing rate till the optimum is reached. That is, higher wages may at the very beginning diminish the rates of costs considerably but will subsequently do so at a gradually slower rate. If a graph be drawn to represent equal increments in the rates of wages by the X-axis and the costs per unit by the Y-axis, the first part of the graph will show a precipitous fall and the latter part a very slow downward slope till the lowest level of cost is reached.

The above statement should be accepted with due qualifications. Firstly, increment of wages may not be followed by immediate lowering of costs. Man is not a machine. Customs and habits of life have such strong grip over him that he is often their servant rather than their master. It takes time for higher wages to raise up the mode of living of a worker to which he is already habituated. Even when it is so raised, improvment of food, housing and other comforts of life takes time to work upon health and general intelligence. Every minute increase of wages is not therefore followed by immediate improvement in efficiency and decrease in cost. For some times higher wages may result in savings. Larger supply of capital in the long run and consequent lower rate of interest may reduce the cost ultimately. But the result is so indirect and far-fetched and is involved in

so many other conditions that an expectation of low cost in this way may be kept out of consideration. A short-term lag between wages and costs will always exist.

Secondly, the relation between wages and costs will also depend upon the number of people a wage-earner has to support out of his income. If his dependents are larger than those of another of his fellows, the same increase of wages will work differently upon the two wage-earners of the same class. The number and constitution of the family vary with different work-people. They are not always determined by scale of wages or any other rational consideration. Hence, one labourer may prove ultimately more costly to an enterpriser than another despite the same scale of wages paid to each. But between two enterprisers of the same position, the average cost of production may remain almost equal. By what the statistician would denote the Law of Inertia of Large Numbers, one part of group varying in one direction will most likely be offset by another equal part of the same group varying in another direction so that the change in the ultimate result may be very slight and sometimes almost negligible. This Law cannot be applied with equal force to judge the competitive position of two countries with their separate economic structures. The average number of dependents per head of earning member, and the rate of growth of population are so much different fundamentally among nations that even with the same scale of wages and the same rate of increase in the wages of each worker, the result will not be the same.

Thirdly, mental fitness, standards of intelligence, education, etc., are different with different races. Here we are at once brought within the province of biology, anthropology and history. So far reduction in costs is to be expected from personal efficiency of the work-people, the very fact that the optimum mental and cultural fitness of the English and the Negroes, for example, is not the same, whatever may be the scale of wages, equal conditions will work out unequal results among them; and costs will be different. Even if two peoples biologically belong to the same stock with the same standard of mental capacity, long standing divergence in civilisation, culture and education may introduce differentiating elements in costs. Given proper education and training for over a century, the labourers of India may attain the same standard of efficiency as the West European Labourers. But as it is today, a sudden increase in the wages of the Indian labourers to a point of equality with the wages of the English workers cannot easily alter the education, culture and general intelligence in a few years or in a few decades to such an extent

as will bring the efficiency level of the Indians to that of the Europeans. Tradition has its own inertia.

Finally, wages to-day constitute merely a fraction of the total costs. Division of labour and specialisation of function have led to the origin of capital and separation of the labourer from the organiser, or the owner of land. Costs of a commodity consist of not only wages but also charges for capital including depreciation of it and interest, amount of rent paid, and the average rate of profit. Rent may not enter ino prices but it adds to the cost of the enterpriser and reduces his margin of profit per unit of commodity; only relatively large volume of production or large quantity of sale due to the locality of the site may cause to yield him large volume of profit. Although in all economic discussions profit is defined to be the difference between the cost of production as determined by the wages, interest and rent, and the sale-proceeds, yet the normal rate of profit as opposed to any windfall should be included in the ultimate cost, as without it the enterpreneur will not undertake any production. The place and importance of wages in any production are determined by the nature of the commodity, perfection of machinery attained in manufacturing it, degree of personal attention required, amount of capital necessary at the commencement and in course of production, the position of the locality of production in relation to the source of raw material and the market, and the general state of education and culture attained by the producing races in their progress towards civilisation. Wages, for example, occupy a very large share of the costs in Indian handloom industry in comparison with the cotton textile inudstry of Lancashire. In the manufacture of Cashmere shawl the share of the wages will be much more considerable. In the manufacture of iron nails, on the other hand, wages will form a very small percentage of the costs, as here machineries have attained a high stage of perfection. If two countries like England and China are compared, percentage of wages will be higher in the cost calculation of particular commodity in the latter country than in the former. Contribution of higher wages towards efficiency and hence their share in the reduction of the cost should be accepted with due reservation and proper assessment. Efficiency in production does not only depend upon the efficiency of the several individual factors of production but also upon their efficient combination and co-ordination.

The direct contribution of the wages to the cost may be small, but their indirect share is much more larger. Capitalistic production, the term applied to denote the modern method of

production, is said to be round-about-way of production, and capital is in the last analysis labour saved and invested subsequently. The general level of wages influences the cost of capital and hence to some extent its value. That portion of the cost of manufacture which is on account of capital invested is influenced by the general level of wages. Here the problem becomes very complicated. If the general level of wages be high, what will be the cost for machineries—will it be high or low? Machineries are produced by machineries in an immeasurable chain of production. Costs of raw materials employed in production are again influenced by the wages, interest, rent, profit, etc., when these costs are the price paid for their acquisition rather than the manufacturing costs. But whatever the indirect share of general wages upon costs, the fact is undeniable that greater is the elaboration in the division of function the greater is the intervention of the influence of the factors like capital, profit and rent as much as of wages. The original contention that wages merely exert a fractional influence upon the cost still holds good.

The natural conclusion of the whole paper is that high wages are compatible with low costs provided they increase the efficiency of the worker. But there is a limit upon the maximum degree of economy available by this method. If the wages are insufficient to cover the labourer's and his family's requirements to attain the highest efficiency, the higher is the increment in wages the lower may become the cost; but it lowers down at a diminishing rate till the maximum economy is reached. But this fact does not prove that lower wages are not compatible with lower cost, when the maximum point of physical and intellectual fitness depends on many other factors extraneous to the standard of living, or when even the ideal standards of living differ by tradition or climatic conditions. Conversely, for the same reason higher wages may under circumstances result in higher costs. The danger of attributing the differences in the costs of production in two countries to the differences in wages is thereby very great. It is further aggravated when the wages constitute merely a fraction of the costs of production.

JAHAGIRDARI AND ZAMINDARI TENURES IN THE MUHAMADEN PERIOD

BY

C. B. JOSHI, M.A.,

Professor of History and Economics, Nowrosjee Wadia College, Poona.

The subject of land tenures has been found by many writers as one which presents numeruos difficulties. The question of the rightful ownership of the soil is a vexed question and though a vast amount of learning has been brought to bear upon its elucidation, it has been left in all its original obscurity. Even such distinguished writers like Kaye in the 19th century and Mr. Moreland in the present century are not in a position to give any definite verdict on the point. One comes across contradictory evidence on this point in the writings of the period and one is not sure whether the conception of ownership of agricultural land as we understand it to-day had been reached at the time.

The early British administrators who were the immediate successors of the Muhamaden administrators declare their inability to solve the problem. To quote Kaye, " The Court of Directors had instructed the local government not to introduce any very violent changes into the existing system—not suddenly —' to deprive the Zamindars of their ancient privileges and immunities.' What those ancient privileges and immunities were, was not very clearly understood. Indeed it had puzzled the servants of the Company from first to satisfy themselves regarding the rightful ownership of the lands. There it was so many square miles of noble land yielding all sorts of produce, and a revenue of two millions; but in whom the rightful ownership of all these broad bighas were vested, we know no more than we did of the landed proprietorship of the moon. Whether we have yet arrived at any very satisfactory solution of the great question, may yet admit of a doubt."[1]

The object of the following pages is not to throw any new light on the question of private property, but is to clear up certain points in the discussion which have unnecessarily added to the complexity of the question. The position of the Jahagirdars and

1 Kaye, p. 168.

the Zamindars and their status was and is often misunderstood both in the past and present. The land revenue settlement of 1793 which vested the Zamindars with the proprietorship of the soil has brought in a new complication. We do not propose to apportion praise or blame for the policy followed by Lord Cornwallis but if the supporters of the policy wish to point out historical precedent to justify the policy, then we submit they will be treading on false ground.

Between the peasant who cultivates a holding entirely or mainly by his family labour, for his own profit and at his own risk and the State there were a number of intermediaries who claimed a share of the produce but did not take an active share in the production. These were the Jahagirdars and the Zamindars. The Jahagirdars were not the same as Zamindars. The Jahagirdar got a portion of revenue from the king in payment of the military and other kinds of services that he did to the king. He got an assignment of the villages whose revenue was equivalent to his pay. He gathered the revenue of the villages, took his pay and then sent the remainder if any to the public treasury. A Zamindar was only a farmer of revenue. He collected the revenue for the state and for the service got remuneration in the form of land or portion of revenue.

The system of granting lands in jagirs was not a new thing introduced by the Muslim invaders. Even before their advent there used to be chiefs, Rais and small Rajas and they used to help the central authority in collecting revenue. These were not entirely displaced by the conquerors though they began to distribute shares of revenue to their followers. It was the Muslim practice of granting lands as jagirs to the soldiers who were successful in war. We find Mahmad bin Kasim distributed lands to his soldiers when he conquered Sind.[2]

Kutubuddin Eibuk had freely distributed jagirs to his slaves. About two thousand horsemen of the army of Shamsuddin Iltutmish had received villages in the Doab.[3] Sultan Balban gave jagirs to all the Afghans who came to serve under him.[4] Firuz shah Tughluk was very liberal in giving jagirs to his favourites. During forty years of his reign he freely distributed jagirs.[5] Even Sher Shah Sur who was against the principle of giving jagirs was forced to continue the old Jahagirdars and grant

2 Elliot I, 461.

3 Elliot III, 107.

4 Elliot IV, 307.

5 Elliot III, 289.

some new jagirs also. Abul Fazl gives us a list of Mansabdars and Jahagirdars at the Court of Akbar. Badauni remarks " the whole country with the exception of Khalsa lands was held in jagirs.[6] The Mansabdari system was continued throughout the Mughal period.

But the Jahagirdars held their lands only at the will of the king and the jagir could be resumed at any time. The Jahagirdar was entitled to take revenue alone and had no share in the soil. There are several examples throughout the Moslem period to show the temporary character of the Jahagirdars.

When Sultan Balban was ruling he asked his muster-master to make a list of the jagirs in the Doab. When a list was made it was found out that many of the old Jahagirdars were dead and the lands were held by their successors. These people called themselves proprietors and professed to have received the lands in free gift from Sultan Shamsuddin. But Sultan Balban decided to resume all jagirs and to distribute them according to his choice, and though he did not carry out his policy because of the intervention of the Kazi of Delhi the fact remains that nobody questioned Balban's right of resuming the jagirs.[7] Allauddin Khilji in order to destroy the power of the nobles resumed all the jagirs at one stroke.[8]

The Mogul nobility also was not hereditary. The nobles were great military tenants-in-chief but not hereditary officials of the emperor. The sons of deceased Amirs would no doubt have some claim to employment, but they could not obtain their fathers' mansabs immediately. A nobleman's property was regarded as official rather than personal, and escheated to the crown at his death. It could not be obtained by his heirs on the presentation of a nazrana to the emperor. There are several examples of confiscations of jagirs in the life time of the Grandees and some times jagirs were transferred without consulting the holders. The rule applied from the lowest to the highest. We know how Shah Jahan's jagirs in the south were transferred to the charge of Shahriyar. Space permitting such examples could be multiplied. This temporary character explains the fact that the nobility lived in a most lavish style and many times were in debt. Bernier, Manucci and other travellers note this fact in their descriptions.

6 Baduni II, 190.

7 Elliot III, 107.

8 Elliot III. 179.

The Zamindar as we have already said was different from the Jahagirdar. He was simply the farmer of revenue. He was known by different names at different times. He was called the Desadhikar, Malguzar or Talukdar. Sarupchand writing in the 18th century informs us, " Those persons who paid revenue to the government were called Zamindars. According to some writers those who were held responsible to government for the revenues of several villages or a pargana were called Zimmadars which word afterwards was corrupted into Zamindar. However in the time of Emperor Akbar, all old Malguzars were put down in the government records as Zamindars or Taallukdars."[9]

The Zamindars as an institution was not the creation of the Muslims. Even before the advent of the Muhammadens they were employed by the state and when Mahamad bin Kasam came to India he continued the same institution.[10]

Though the Zamindars were merely the farmers of revenue they alone used to come in contact with the peasant proprietors and therefore they many times harassed the peasants. Whenever the central government was weak, the Zamindars had ample opportunities to increase their wealth and power. As Baden Powell remarks " As a matter of fact when we reflect on the emoluments and opportunities of the Zamindar his power of getting land by sale and mortgage, his right of ousting obnoxious men and by taking possesion when an unfortunate owner absconded—perhaps to avoid exactions which had become intolerable, perhaps in his inability to pay his rent—it is not difficult to perceive how the Zamindar grew into his ultimate position.[11]

There are numerous instances of the muslim kings punishing the Zamindars for their illegal exactions. Allauddin Khilji reduced the Chaudharis, Khuts and Muqaddams to a state of abject misery and made one law applicable to all landed proprietors.[12] He investigated all cases of embezzlement and inflicted the severest punishments upon the wrongdoers. If the ledger of the Patwari showed a single jital standing against the name of any officer, he was punished with torture and imprisonment. Both Ghiyasuddin and Mahmud Tughluk took pains to stop exactions of the Zamindars. Both Sher Shah and Akbar tried to

9 Elliot VIII, 315.

10 Elliot I, 190.

11 Baden Powell, Vol. I, 512-18.

12 Elliot III, 182-83.

do away with the Zamindars by making revenue arrangements directly with the cultivators. When Sher Shah went to his jagir he invited the cultivators round him and made agreements with individual proprietors of the soil and settled the amount of revenue to be paid and thus reduced the Zamindars to the position of mere collectors of revenue.[13] In the instructions given by Abul Fazl to the revenue collector it is explicitly stated that the collector was to come in touch with the individual ryots and assess the revenue himself and not to leave it to the Zamindar.[14] The assessment was to be fixed by the officers of the state and the collection was alone left in the hands of the Zamindars. Even when the East India Company got the grant of a Zamindari from the Mughal Emperor, they were not allowed to assess revenue or to increase the burden on the cultivator. "Holwell tells us that in the year 1732 the Governor and Council had in agitation the raising of the rents of the Zamindari of Calcutta, which being rumoured abroad, they received a peremptory perwannah from the Subbah forbidding them, in which the Subbah told them that they were presuming to do a thing which he had not the power to do; and that if they persisted, they would by the laws of the empire, forfeit their Lands."[15]

Harington's "Analysis" contains a definition of the Zamindar as he found him during his twenty eight years of service as a revenue officer in Bengal. Without any apology we quote the extract in full.

"The Zamindar appears to be a landholder of a peculiar description, not definable by any single term in our language. A receiver of the territorial revenue of the State from the ryots and other under tenants of the land: allowed to succeed to his Zamindari by inheritance, yet in general required to take out a renewal of his title from the sovereign or his representative, on payment of a Peshkash or fine of investiture to the emperor, and a nazarana or present to his provincial delegate the Nazim; permitted to transfer his Zamindari by sale or gift, yet commonly expected to obtain previous special permission: privileged to be generally the annual contractor for the public revenue receivable from his Zamindari, yet set aside with a limited provision in land or money, whenever it was the pleasure of the government to collect the rents by separate agency or to assign them temporarily or permanently by the grant of a Jagir or Altamgha; authorized

13 Elliot IV, 818.

14 Ain-i-Akbari II, 44.

15 Quoted by Firimnger, p. 69.

in Bengal since the early part of the present century to apportion to the parganas, villages and lesser divisions of land within the Zamindari, the abwabs or cesses imposed by the Subhedar, usually in some proportion to the standard assessment of the Zamindari established by Todar Mall and others; yet subject to the discretionary interference of public authority, to equalize the amount assessed on particular divisions or to abolish what appeared oppressive to the Ryot; entitled to any contingent emoluments proceeding from his contract during the period of his agreement, yet bound by the laws of his tenure to deliver in a faithful account of his receipts; responsible by the same terms for keeping the peace within his jurisdiction, but apparently allowed to apprehend only and deliver over to a musalman magistrate for trial and punishment—this is in abstract, my present idea of a Zamindar undei Mughal constitution and practice."[16]

The status of the Zamindars was not different in the Deccan and other parts of south India and this was quite natural as Prof. Sen remarks " When the Hindu Padshahi was founded by Shiwaji he had to follow in the footsteps of his musalman predecessors . . . . Maratha subhedars replaced Muhamedan Subedars and the Maratha Chhatrapati occupied the position of the Muhamaden Sultan; but the revenue was still paid in Muhamaden coins, the revenue terms were still Persian and the sanads and instructions issued to Revenue collectors were mere translation of Persian farmans of the Muhamaden rulers."[17]

In Shiwaji's times the emoluments of the officers were paid in cash; but later on in the Peshwa period the practice of granting lands as inams was revived and these inamdars became the prototypes of the Zamindars in the North. The question of the rights of the Inamdars was exhaustively examined by the Inam Commission appointed by the Bombay Government and the opinion of this commission throws important light on the status of the Inamdars. Colonel Etheridge in his narrative of the Inam Commission observes thus, " Inam in its primary sense means gift. But it is to grants of land-revenue that I need only refer. Grants of land revenue were made either directly in land or constructively so, in grain and kind or cash. By the common law of the country every acre of land is liable to the payment of assessment to the ruling power *pro bono publico*, and the right to receive that assessment might be transferred to any individual whatsoever, or conferred for the maintenance of any secular or

16 Quoted by Setton-Karr in the life of Cornwallis, p. 84-85.

17 Sen, p. 582.

religious office. If to an individual it was perhaps for service alleged to have been rendered by himself or ancestors or granted it might be out of mere favour and the freak of the moment. Grants of this kind might be free from conditions. Conditional grants would be those in which civil or military service was exacted by the state direct or certain duties had to be performed by the office bearers in a village for the sake of the inhabitants in revenue, police, or domestic concerns; also religious grants, which were for the maintenance of worship in the village temples and mosques, or in shrines situated not actually in the village boundaries, with the revenue of which they were never-the-less, either wholly or partially endowed. In each of these cases the granting power parted only with its own right, which in the case of occupied soil, would be that of receiving assessment; and the grants usually contain, except perhaps, when waste villages or lands are bestowed, a proviso that the pre-existing rights of occupancy, or otherwise, are on no account to be interfered with by the grantee who is simply in the case of occupied soil created landlord in the place of the Government or granting power."[18]

Similar is the opinion expressed by the servants of the East India Company in south India and which have been quoted extensively in the third volume of the Fifth Report.

Thus we see that the Jahagirdar, Zamindar, Inamdar and other such land-holders have no proprietory rights in the soil. They are merely servants of the state and get a portion of the land revenue as payment for the work of revenue collection.

18 Ethridge report, pp 4-5.

LAND TENURES IN SOUTH INDIA

BY

DR. B. V. NARAYANASWAMY NAIDU, M.A., B.COM., BAR-AT-LAW,

Professor of Economics, Annamalai University.

In this brief paper no attempt is made to furnish an exhaustive account of the land revenue systems prevailing in South India before the advent of British Rule. A few of the outstanding features of the land tenures in South India before that event and immediately after are herein selected for treatment. The question of land tenures was first taken up for study only with a view to the solving of everyday problems of British administration. But even for this purpose an accurate knowledge of the established ideas—according to Hindu as well as Muslim authorities—regarding the rights on land as between the state and the private individual, as also of the custom and practice, is a pre-requisite. Sources are not rare from which a detailed and exhaustive study of this subject can be made with profit. In this paper I attempt only an outline of the scope of the subject.

The question of proprietory rights in land in India has long been a matter of controversy. Defining proprietory right as the power to use, destroy, bequeath and sell, the right to alienate. was very limited indeed in the earliest times. There was no recognised market value for tenures. Later, land was regarded as common property; it could be sold to strangers only with the consent of the other villagers. That some sort of right in land was recognised can be inferred from the large number of mortgages; though sales of land were few and far between. Individual property in land was recognised first in the West Coast; there the state was weak; and in general it cared only for the tax. Even when the taxes were in arrears cultivators were not ejected; only their movable property was attached. Land sale in India was never an indigenous institution. The state interfered with the ownership only on the request of individuals forming part of the community. No ancient writer, Hindu or Muslim, has cared to define what exactly was meant by ownership of land; nor is it clear with whom these rights were ultimately vested. But they have always recognised some kind of right in land.

Right in land could be acquired by clearing it and bringing it under cultivation, by conquering and inhabiting and by birth-right or inheritance. Ownership of land must at first have belonged to the family, though Manu who represents a more settled state of things, mentions only individual ownership. Lands belonging to rajahs and ruling families were subject to the laws of primogeniture and indivisibility; but when such families were split up or became extinct ownership passed on to village landlords. Neither Hindu nor Muslim writers refer to any proprietory right on land vested in the state. The state was entitled to a share of the produce of the land and could even fine the owner for failure to cultivate. It also claimed as its own all unoccupied land. The state's claim to ownership of land arose out of disorganised and chaotic conditions. From the beginning, British administrators claimed the right of the state to the ownership of all land; and in official language the property in land belongs to government 'by ancient usage' and the government had 'the implied right and the actual exercise of the proprietory position of all land whatever.' Thus the proprietory right of the state on the land is an accident of history, not the result of immemorial tradition.

Let us next consider the method by which land revenue was levied before the advent of British rule. In the ancient Hindu days there was no taxation except that on land; and, according to Oriental theory, there too, neither capital nor labour was to be taxed. Only that portion of the produce which was the result of nature's bounty should be subject to taxation, provided there was no prior claim to it. Revenue on land represented the commuted money value of a proportion of the gross produce. The amount was fixed only after considering the nature of the soil and the relative value of the yield. The tax for each year was levied on the crop as it was produced and no settlement was made for a succession of years.

There were, no doubt, considerable variations in the later Hindu period. The country was divided into three areas: the Tamil country, the West Coast and the Telugu country. The Tamil area was split up into three great kingdoms, the Pandya Kingdom covering modern Madura, the Chola Kingdom extending over modern Tanjore and the Chera Kingdom which flourished in and around modern Salem. Throughout the Tamil area the predominant type of village community was republican. Individual right seems to have emerged at an early date in Tanjore, Tinnevelley, Madura, Dindigul and in other places south of Coleroon. Though the division of land had assumed a

state of permanence the ancient communal right over property had changed and individual right to land was recognised. Still the village land was cultivated in common and an individual was entitled only to his share of the produce. An individual could not sell his share without the consent of the community: but when a man gained a right by sale or legacy he was admitted to all the common privileges of mines or quarries, fisheries, forests, waste land, pasturage, etc. When the shares were subdivided once again the holder got a proportionate share of the common privileges. These common rights and duties were termed *Caniauchy*, by the Vellalars, *swastiam* by the Brahmins and *mirassy* by the Muslims. When the *mirassy* was vested in one individual (as in some Tanjore villages) it was called *ekaboham*. Individual *mirasidars* had to pay certain small taxes or '*meray*' to the community to meet the expenses of internal village administration. As opposed to this duty the *mirasidars* had many rights; on the grounds of hereditary right and usufruct they claimed the sole right to apportion land within the village; they claimed hereditary authority to manage village affairs. In *Tondaimandalam*, *viz.*, modern Chingleput, North Arcot and South Arcot, the *mirasidars* claimed *gramamanyam*, a portion of arable land free from any rent or tax. They treated the *non-mirasidars* as strangers who could cultivate lands only on the pleasure of the *mirasidar*. These latter paid dues to the *mirassy* corporation and in course of time the *mirasidars* not only ceased to pay any dues but they even claimed portions of the gross produce from the non-mirasidars without doing anything in return. The Panchayat carried on the village government, collected the taxes from the individuals and paid them to government. The non-mirasidars were the tenants either of a body of *mirasidars* or of individuals and were known as '*poyacarries*.' They paid the *merays* as well as the rents which were fixed by custom, the same family of cultivators continuing generation after generation without any enhancement of the rent. Gradually the cultivators acquired a right over the land which they could even alienate. This class of tenants was called '*oolcoody*.' The system of *manyams* or tax free land was recognised in the Hindu period. The excessive taxation during the Muslim period served as a check on the *mirassy* system and the *mirasidars* sank to the position of '*oolcoody*.' But the *mirasidar* system persisted longest in Tanjore.

Land tenures in Kerala or the West Coast were very much different from those obtaining in the East Coast. The chief features of tenures in the West Coast were a strongly developed

sense of individual and personal property, the presence of a military trenure analogous to the feudal system and the absence of a concentrated village system and any form of government tax on land. Travancore and Cochin were ruled by kings belonging to the landowning class while Malabar was broken up into small principalities chief of which was that of the Zamorin. In the main lands were in the possession of the Nambudiris and Nairs who held the Thiyas and other cultivators in subjection. Neither Nambudiris nor Nairs paid any taxes; but while the former supported the temples the latter served the king in times of war with a large number of their retainers. The Moplahs of Arab origin who had settled in some places paid no taxes. The king's expenses were met from the produce of his vast estates which were cultivated by slaves. Upto the Muhammadan invasion there is no trace of a land tax south of *Tooloova*. Later the land tax was transferred from the Nairs to a class of cultivators called ***hullers***.

As has been noted there was no village system in Malabar. The people dwelt in scattered farms and gardens and fiscal matters were attended to by authorities in each area. The possession of land was vested in the individual and very rarely in the community. The land was held under *Janm* or birthright. It was seldom that the owners themselves cultivated the land but it was let on limited leases to tenants caled *pauttomears*. Since an original *janmdar* forfeited exemption of taxes from his lands if they were sold mortgages were the rule in Malabar while sales remained the exception. Even mortgages were of a peculiar kind: the mortgagee could not gain the *janmam* right on the land by foreclosing: if the mortgagor died the deed had to be renewed when the new heir could deduct 13 per cent from the principal and thus in the course of a few generations the mortgage terminated even without any payment.

In the hilly portions of the Telugu country some sort of a military tenure prevailed. Military chieftains held definite areas over which they had unlimited powers. They claimed the entire revenues in return for serving the king in the field or attending him at court. Examples of such tenures were to be found in Cuttack and Vizianagaram. The plains, however, were held by non-military Hindu rajahs who were like the ordinary landed aristocracy elsewhere. In these areas traces of *mirasy* rights could be found.

The land tenures of South India were not modified to any appreciable degree by the Muhammadan conquest which was no more than a military occupation. In large measure the

Muhammadans left the police and revenue administration in the hands of the local chiefs; where there were no chiefs the work of collection was entrusted to tax-farmers who merely exploited the familiar system. These latter were only temporary speculators and they acquired no right over the lands which were farmed to them. Akbar the Great, however, took advantage of the more settled conditions to introduce a system of land revenue which was an improved form of Sher Khan's settlement. In the main this system was extended to the south by Shivaji and Malik Amber. The twin objects of Akbar's settlement were to abolish the evils of tax-farming and to encourage the growth of village communities. The methods he adopted have many things in common with the present system: the lands were first surveyed and classified according to average yield, the prices for the produce for the previous decade were ascertained and the amount of tax was fixed in money value as a third of the gross average value of the annual crop. Besides, the tax payable by each cultivator was listed and given to the village authorities for their guidance. Arrears of taxes were recovered by personal restraint or by sale of moveables and not by the sale of land. If, however, a tenant failed to cultivate his land the government reserved the right of taking the land from him and giving it to another. The system did not take a permanent hold in South India since a little later the tax-farmers are still to be found.

The British Government began to tackle the question of South Indian land tenures in the last decade of the 18th century. The settlement of the Barmahal was effected between 1792 and 1798, that of Coimbatore in 1799, of the Ceded Districts in 1800 and that of the Carnatic districts in 1801. The Company's administration tried at first to overthrow the *Ryotwari* system and to introduce the *Zemindari* system in all places (1801—8). On the failure of this attempt a system of 'village settlements' was tried. The lands within the village area were leased to a renter, a headman or a body of villagers. This system too was of doubtful success and between 1812 and 1818 a *ryotwari* assessment was finally undertaken. When the British administrator was first faced with the problem of South Indian land tenures there was no uniform system of land tenure in the country. In places, Zemindars or native chiefs held large stretches of land; in others, the village headman, single-handed, was responsible for the tax; in yet others, the village community made a collective bargain for a lump annual payment of revenue. The British attempts at revenue settlement can be understood best by a close study of particular areas; and it need scarcely be added that the

history of revenue settlement follows closely the history of acquisition, the revenue of each area being settled as early as possible after it came into the Company's possession.

The Northern Circars were the first to come to the Company's possession and a study of the history of the revenue settlement in these areas reveals two facts: one, that a policy of trial and error was at first followed; and two, that the extension of the Zamindari system was due to external influence. When the Northern Circars were first acquired the Company's servants knew so little about tenures and settlements that they left the details of administration to indigenous hands contenting themselves merely with the keeping of accounts. A conspicuous result of their ignorance was the extension of the pernicious system of tax-farming: the Zemindari lands that were in the hands of middlemen were left undisturbed while renters were introduced even into the *Havelly* lands which were till then taxed direct. In 1769 the Government of Fort St. George took charge of the detailed administration and appointed Provincial Councils to look after the revenue system. When these proved ineffective the Court of Directors appointed a special Commission or Committee of Circuit to tour the districts and enquire into rights and interests. On the failure of this system once again, the Company gave up all attempts to secure a uniform or fixed system and resorted first to annual leases and then to three-year or five-year settlements.

The state of things was changed by the pressure of Bengal opinion and by the behests of the home Board. Between 1786 and 1801 a series of steps were taken which resulted in the establishment of a permanent Zemindari settlement in the Circars. In the former year a Board of Revenue was established on the Bengal model. Lord Cornwallis had already decided upon a plan of permanent settlement in that province and in 1789 an experimental ten-year settlement was announced; and three years later, the plan of permanent settlement was confirmed. The Bengal Government began to press Madras to follow their example and even the Board of Directors commended that policy. But the Board of Revenue in Madras was not enthusiastic about it and wanted time for collecting further information. However, final orders for permanent settlement of the whole of the Madras Presidency were passed by the home authorities in 1799 and a special Commission was appointed. Between 1802 and 1804 the Northern Circars were permanently assessed. The existing Zemindars were confirmed in their rights, the assessment being fixed according to local conditions. The *Havelly* lands were

parcelled out into convenient bits, put to auction and sold to the highest bidder. These bits were called '*mootahs*' or perpetually settled farms.

This predilection of the Board of Directors in favour of a permanent settlement put a stop to an interesting experiment that was being tried in the *jaghire* or the country round Madras which was granted to the Company by the Nawab of Arcot in part in 1759, and in part in 1763. After trying various unsuccessful expedients this territory was placed under the control of one Mr. Lionel Place in 1794. Mr. Place found out that the villages in the *jaghire* were *Mirassy* or democratic and that they were corporate bodies who owned the land and had an internal Municipal administration of their own. This officer came to a settlement with the corporate body regarding the amount of tax without trying to fix the exact sums due from individual cultivators. Before this system could be given a fair trial, under orders from England, the *jaghire* was permanently assessed in 1802, the land being cut up, parcelled out and auctioned to the highest bidder, as *Mootahs* or proprietary estates.

As has been pointed out the problems presented by the various tracts acquired by the Company from time to time were not at all similar. The conclusion of the Mysore wars saw the Company in possession of Baramahal or Salem, Dindigul, Malabar, Canara and Coimbatore. In 1800 the Nizam ceded to the Company a territory lying south of the Tungabhadra which was thenceforward known as the Ceded Districts: and the very next year they acquired the extensive possessions of the Nawab of the Carnatic. It is obvious that these territories which differed from one another in nature and history could not be easily brought to any uniform system.

But most of these new territories had one feature in common, *viz.*, the existence of the chiefs named Poligars or intermediaries between the government and the cultivators. These *Poligars* were either the descendants of the royal families of Vijianagar, Conjeevaram and Madura or of military feudal chieftains who had survived even after the Muslim conquest or of the Muslim district collectors who had usurped the powers of the government. During the Muhamadan period the *Poligars* of the time enjoyed a large measure of freedom. They frequently fought amongst themselves and the British Government was forced to check the unbridled conduct of these chiefs. A permanent settlement with the *Poligars*, was effected in Chittoor, Kalahastry, Venkatagiri and other places; but the large number of *Poligars* (33) in the southern part of the Tamil land made the appointment of a

collector necessary. However, the Poligars did not yield without a struggle and they were finally overthrown only by 1907.

Even though conditions in the newly won territories differed, the Directors in England were enamoured of a permanent settlement of a *Zamindari* or a *Mootadhari* kind and tried to introduce it throughout the Madras Presidency. For obvious reasons this attempt failed in many places. One such was the Baramahal or the Salem area. When a commission under Captain Read was appointed to take charge of this area they found that the efficiency of the village communities and Corporations so impaired by Tippu's military exactions that they thought only of an individual settlement of revenues and not of any wholesale arrangement. By 1798 this Commission completed the survey of the area entrusted to them and determined that the rents should be paid on a *ryotwari* system. Though this was approved by the authorities in England, they regarded it only as a temporary expedient and the orders of 1799 regarding the Zamindari or Mootadhari settlement were extended to Baramahal also. Accordingly during 1803 to 1805 this area was cut up into 228 lots and was auctioned. But the scheme broke down in this area: many of those who bought the lots, pillaged the lands and went bankrupt in the second year. This is attributed by some to the high amounts of rent fixed by the Read Commission while others think that the village settlement system could have been tried. Any way, on the failure of the system the Company went back to the *ryotwari* system, which finally prevailed. This system was subsequently extended to Dindigul, Coimbatore and the Ceded Districts.

The problem presented by Malabar to the British administrator in the matter of land revenue differed from all others. As has been noted, in Kerala the landlords claimed all rights over their lands; they had from times immemorial paid no taxes and the state could never claim a right to half the produce as it did in other areas. So the government took as their basis of assessment the system adopted by Ashed Beg Khan, the deputy of Hyder Ali. The Khan had adopted the principle that while 55 per cent of the produce went to the cultivator and 15 per cent to the proprietor, 30 per cent should go to the State. When these taxes were demanded in Malabar in 1792 the actual collections fell short by 25 per cent and the people rose in rebellion. It was only after a second rebellion in 1800 that the revenue in Malabar was finally settled. The Collector called together the chief landholders and Brahmins who elected a committee. This

committee decided that while 50 per cent went to the cultivator the landlords should get 30 per cent while the government got 20 per cent of the value of the gross produce. This was accepted by all concerned and thus the system followed was only the Ryotwari.

Conditions in Canara were somewhat different from those prevailing in Malabar. There the power of the landowners had been so attenuated by Hyder's rule that the landowners were no better than labourers on their own estates. Here too, Munro established the *ryotwari* system in 1800. Here the extent of cultivated land was fixed by the measure of seed it took to sow it. Settlements were effected only with individuals. In this area the *ryotwari* system soon became a permanent one, but owing to intolerable inequalities of the assessment a thorough investigation was ordered in 1817 which resulted in the Tharow assessment of 1819. This was based on detailed knowledge of the yield of each estate and sought to fix a maximum which the collector could exceed on no account.

The survey of the experiments in land revenue in the various areas has revealed the fact that the two main systems that were tried were a system of intermediaries consisting of Zemindars or Mootadhars or a system of direct individual settlement or *ryotwari*. In addition to these two, however, there was a third alternative, *viz.*, the village joint settlement. With the authority of the Board of Directors, the Madras Board of Revenue tried this system in several districts in 1808. Though the Board itself was very much in favour of this method their revenue expert, Colonel Munro, was very much opposed to it. The plan was first tried for three years; but since the assessment was considered excessive by the chief inhabitants of the villages they refused to bid at the auctions and in many places speculators came forward and offered extravagant sums which they completely failed to pay. Though the experiment was thus of doubtful success in many places, government made a further ten-year settlement. But this system was ended on instruction from England in 1817 and the *ryotwari* system was introduced wherever parcticable.

When the *ryotwari* system was finally introduced in 1820 it will be interesting to note to what extent and in what areas the new system gained a hold. The Zamindari system prevailed in Ganjam, Vizagapatam, Rajamundry, Masulipatam, Guntur, Salem, Chingleput and Cuddalore districts and the western and southern Chittoor Polliems. In the Ceded Districts, Nellore, the two divisions of Arcot, Palnad, Trichinopoly, Tinnevelley and

Tanjore the village system had been introduced. The *ryotwari* system was fully established only in Malabar, Canara, Coimbatore, Madura and Dindigul. The *ryotwari* system was established in Madras in 1820 since the village leases had expired and since many of the new Zamindaris or Mootahs had lapsed or been bought in.

Since 1820 the rates of assessment in *ryotwari* lands have been revised from time to time. Questions relating to *Inams* or rent-free lands have been considered by a special commission. Various laws have been passed to expedite the collection of revenue and to protect various classes of landed interests; but there has been no change in the policy of government regarding tenure and settlements.

Therefore, partly because of the accidents of history and partly because of the policy of government there has been no uniform system of land tenure in South India. Over some areas the government have very little control; over others they are absolute masters. Ranging between these two extremes there are various types of land in this part of the country. First come the perpetual freeholds which are secured for ever by title deeds and free from any sort of government impost. Next come the holdings of enfranchised *Inamdars* who hold their lands for ever—lands which are secured to them by title deeds but for which they have to pay a quit-rent at a very favourable rate. Third in order come the Zemindaries. These date from the 18th century or earlier and are governed by the law of primogeniture in the matter of sucession. The Zamindar holds the land for ever and has a *sanad* showing his proprietorship of it. He pays a fixed tax to government and he has to enter into written contracts with his tenants. The proprietory estates or Zamindaries created in or after 1802 resemble the other Zamindaries in all respects except in the law of primogeniture in the matter of succession. The so-called '*Uusettled Polliems*' have no *sanad* but the land demand in their cases is fixed for ever. The holdings under *ryotwari* also enjoy a fixed tenure, but the ryots have no *sanad* and the revenue demand may vary in certain circumstances. The *Inam* holdings were originally given by government as rewards or as gifts. The *Inamdars* have no deeds to show their unconditional title to the land they hold. They hold the land as long as they continue to fulfil certain conditions as judged by Government. The rent in these cases is calculated as in *ryotwari* but it is more favourable to the holder. In addition there are also lands held on special conditions and unassigned lands to which some persons have a preferential claim or gain lands which the government

have under their control which they can assign or keep as they choose.

It is clear, therefore, that the land tenures in South India are the result, in the main, of a policy of government which aimed at first at ease and readiness of collection and later at as high a revenue as the Company could manage to get. If the policy had been influenced by a concern for the cultivator or for the impartial equity of assessment throughout the country, perhaps, greater attention would have been paid to a system like that of Akbar wherein the village as a corporate body is responsible for the tax while at the same time the due from each villager is definitely fixed in consultation with the village leaders. This could have kept the village system strong and virile capable of tackling the changing conditions of a fast changing world. But this is, no doubt, one of those pleasant would-have-beens of history which have little relation with the problems in real life.

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LAND TENURES IN BENGAL

BY

SACHIN SEN, M.A., B.L., Advocate.

The right kind of tenure is a condition precedent to an improvement of agriculture. The under-utilisation and under-capitalisation of lands are direct results of unscientific tenures. Scientific land-tenures must have the following characteristics:—

(1) Actual workers should enjoy utmost freedom and encouragement;

(2) Opportunities of access to land should be granted to those who are best qualified to use it;

(3) Rent, if enjoyed by any of the intermediate parties, must be earned;

(4) Protection and security of actual cultivators should depend upon punctual payment of rent and honest farming according to the rules of good husbandry;

(5) Landownership should not be divorced from responsibility: landlords, if any, should not be left in the position of rent-receiving sinecurists.

It is generally believed, particularly advocated in Bengal, that an ideal land-tenure can be achieved by the adoption of the three "F's" (fair rent, fixity of tenure, free sale) on behalf of the cultivators. There is also an idle impression that ownership of lands by actual cultivators is a panacea for the evils of an agricultural country. It must be frankly stated here that farmers themselves have no enthusiasm for ownership and that fair rent should depend on punctual payment and fixity of tenure on good cultivation. Free sale is an evil, so is free transferability. Even the right of bequest should be fastened round with the rope of restrictions in the interests of farmers. An ideal land-tenure does not demand occupying ownership[1] but cultivating tenure with healthy restrictions and utmost encouragement. Tenure-at-will and tenure-at-chance are to be changed into tenure-for-good-husbandry.

[1] Arguments against occupying ownership are categorically stated in the Rural Report of the Liberal Land Committee, 1923-25 (England).

The three-partner system in agriculture obtains in Bengal. It is for us to see if all the three partners are "pulling their full weight" in the advancement of agriculture. Under the Permanent Settlement Regulations of 1793, those with whom the settlement was concluded were declared proprietors of the soil. That settlement still persists in the sense that it is not abrogated, otherwise the rights of proprietors stand amputated beyond recognition. The proprietors of the soil were under Regulation 1 of 1793 left with one-tenth of the then rent, nine-tenths going into the state exchequer. The settlement was good, bad or a blunder: that question is not before us. But this can be stated without fear of contradiction that the said settlement enabled the British Administration to build up their Empire in India. By virtue of the Settlement, the Governor-General-in-Council trusted that "the proprietors of land, sensible of the benefits conferred upon them by the public assessment being fixed for ever, will exert themselves in the cultivation of their lands under the certainty that they will enjoy exclusively the fruits of their own good management and industry, and that no demand will ever be made upon them or their heirs or successors by the present or any future Government for an augmentation of the public assessment in consequence of the improvement of their respective estates," but there was no specific provision calling upon the proprietors to extend cultivation. The Regulation was emphatic only on one point and that is this: "in future no claims or applications for suspensions or remissions on account of drought, inundation or other calamity of the season will be attended to" and "failing in the punctual discharge of the public revenue, a sale of the whole of the lands of the defaulter or such portion of them as may be sufficient to make good the arrear will positively and invariably take place." Thus under the Settlement, the rights of landlords were extended to proprietorship of the soil and they became responsible for the punctual payment of revenue. Those who are conversant with the development of agriculture in Bengal are perfectly aware that it was possible because the ownership and control of lands were in the hands of a wealthy class. The conclusion is irresistible that the Zemindars were very active and powerful factors in the development of the wealth and prosperity of Bengal and a contrast of the present conditions in Bengal with those obtaining in 1793 will be significant for the purpose. The Regulations of 1793 made the landlords active and dominant partners, the ryots subordinate ones and the Government an indifferent party, interested in the amount of revenue. Government did not earn their high rate of revenue

as every developmental work was left to landlords; the ryots did pay their rent, the rate being customary as the rate of rent in Bengal was not competitive; the landlords earned their rent well and paid proportionately high revenue to Government. This state of things was fundamentally shaken by the tenancy legislation of the province. The tenancy legislation[2] embodies legislative interferences with the proprietory rights and responsibilities of Zemindars and it was justified on the strength of the declaration of the Governor-General-in-Council in the proclamation of the permanent settlement which stated—" it being the duty of the ruling power to protect all classes of people and more particularly those who from their situation are most helpless, the Governor-General-in-Council will, whenever he may deem it proper, enact such Regulations as he may think necessary for the protection and welfare of the dependent talukdars, ryots and other cultivators of the soil.[3]

The tenancy legislation has broken the rigorous conception of individualistic property. Lands are not now within the unrestricted control of owners. The relation between the landlord and the tenant is not one of personal dependence, it is that of a lessor and lessee.[4] And something more than that. Lease is a means for transferring the use and benefit of property for a determinate period in order to secure a return in the form of rent, whereas under the Tenancy Act of Bengal a ryot holding land for twelve years steps into occupancy rights which can hardly be distinguished from the rights of ownership. This form of tenancy is very much akin to *Emphyteusis*[5] in the Roman Law.

2 The history and implications of the tenancy legislation are discussed in the author's work, "Studies in the Land Economics of Bengal" 1935.

3 Mr. Ashutosh Mukherjee (as he then was, later on Justice Sir) remarked in a paper contributed to the October number of the Calcutta Review, 1880 on this point in the following way :—

"It would be absurd to suppose that the Governor-General-in-Council when he declared the Zemindars to be proprietors of the soil in the same breath told them that he kept in reserve a power to be sprung upon them whenever he chose, by which their proprietary rights or the value of their landed property could be interfered with or affected and nevertheless gave them distinctly to understand that they should not expect the remission of a single rupee in the assessment which was fixed at ten-elevenths of the then existing value of their Zemindars."

4 "The modern conception of lease is that it is a form of bilateral contract which creates no relation of personal dependency."

5 Emphyteusis was a grant of land either in perpetuity or for a long term on condition of payment of an annual sum to the owner or his successor. It was neither sale, or hire but a special juristic transaction. The tenant's right was as complete as the owner's.

An occupancy ryot is practically the proprietor of his holding subject to rent charge, liability to an enhancement of rent on very stiff conditions and to the premium payable on the transfer of his holding. An occupancy holding may be transferred or bequeathed as other immovable property. The majority of ryots in Bengal enjoy occupancy rights. They pay a moderate rent, a little over Rs. 3 per acre, and enjoy the highest of privileges. This is the work of custom recognised by the Tenancy Act. Thus dominant and active partnership in the business of agriculture has been transferred from landholders, a wealthy class, to ryots, an indigent community.

It is true that the landlord-tenant system is weakening and this break-down is traceable to the Tenancy Act. The defence of landlordism lies in the fact that it supplies capital to agricultrue at a cheap rate. It is also to be borne in mind that the landlord's position[6] in agriculture is not of "privilege but of utility." But the Tenancy Act has asphyxiated the incentive of the landlord's interest in the land. The Tenancy Act permits arrears of rent, while arrears of revenue are not tolerated. The Tenancy Act offers no powers to landlords for speedy realisation of rents. Landlords are discouraged to enhance the rate of rent and though it is permitted, very stiff conditions[7] are prescribed for defeating the object. Any rise in the prices of agricultural products other than staple food-crops such as Jute, Tobacco, entirely goes to ryots. It is extremely difficult for landlords to prove the increased productivity of lands through their improvements. Land economists agree that any attempt to restrict the landlord's right to raise rent to a legitimate rate is bound to intensify the shortage of capital in agriculture. Lands hardly belong to landlords: they can introduce no improved methods of farming without the consent of occupancy tenants. An occupancy ryot's rights over his holdings will never expire as long as he pays his rent. Even if he neglects cultivation, a landlord is helpless.[8]

6 "The reasons which form the justifications of private property in land are valid in so far as the proprietor of the land is its improver"—J. S. Mill.

7 Section 30 states that the landlord may enhance the rate of rent of an occupancy ryot by suit on one or more of the following grounds, (a) that the rate of rent paid by the raiyat is below the prevailing rate, (b) that there has been rise in the average local prices of staple food crops during the currency of the present rent, (c) that the productive powers of the land have been increased by an improvement, effected by, wholly or partly, at the expense of the landlord.

8 The only restriction in this respect exists is that he must not render the land unfit for tenancy.

Moreover, the Tenancy Act is a recognition of the principle of state-intervention in the interest of agriculture. It prescribes that every matter between the landlord and the tenant will be decided in the court and is thus an indirect means of screwing better revenue under the "stamps" at the cost of the landlord and the tenant.[9]

I do not grudge the concessions to ryots, though I am of opinion that those concessions are misconceived and have not contributed to the welfare of agriculture. But this is true that the Tenancy Act, as it stands, has administered the heaviest of blows to the landlord-tenant system and if landlordism is breaking down to-day and has fallen from its past glorious record, it is through sheer force of circumstances, arrayed against the institution by the hesitant, imperfect revenue policy of the Government.

It is a very material question from the broader interest of agriculture if private landlordism should be allowed to die. This much should be recognised in fairness to history that landlords saved our agriculture in the past by sinking in huge capital and acting as unrecognised financiers to ryots. But they are handicapped in doing so at present by the Tenancy Act which recognises and crystalises unscientific land-tenures to the detriment of agriculture. It is recognised that the ryot should be protected from oppression and exaction, the demand of rent upon him must be moderate and the enjoyment of rights which he may acquire by industry should be secured to him but this protection and security should depend upon his faithful discharge of his liabilities, punctual payment of rent and good cultivation. The Tenancy Act grants protection and security to the ryot without ensuring in any way the discharge of his liabilities. The result has been that the ryot stands protected and secured to the fruits of his industry whereas the landlord has no means of realising rent punctually and farming is not being carried on according to the rules of good husbandry. Hence, the under-capitalisation and under-utilisation of the land. Through his unrestricted right of transferability an occupancy ryot may degenerate himself into an under-ryot; through his unrestricted power of sub-letting, he may convert himself into an idle middle-

9 The Royal Commission on Agriculture in India have emphasised the fact that "where existing systems of tenure or Tenancy Laws operate in such a way as to deter landlords, who are willing to do so, from investing capital in the improvement of their land, the subject should receive careful consideration with a view to the enactment of such amendments as may be calculated to remove the difficulties."

man and a petty landlord. By virtue of the Tenancy Act, a ryot may remain as a tenant in respect of a portion of his holding and may be a landlord in respect of the other portion. An occupancy ryot may keep a portion of his holding to himself for cultivation and sublet the other portion on a higher rate of rent so that the portion cultivated by himself may be enjoyed free of rent. A ryot is under no obligation to improve his methods of farming and the 'Kabuliyat' makes no provision for good cultivation. The Tenancy Act of Bengal encourages all these evils and it can justifiably be contended that the Tenancy Act is not a measure for the protection of lands but one of sowing seeds of disunion between landlords and tenants. The landlord's right to own agricultural land should rest on his performance of his functions, so should the tenant's right to occupy a holding rest on discharge of his liabilities. It is not to the interest of agriculture that the one party should be castigated for not performing his part while the other party would be given indulgence in converting his liberty into licence. Those who fail in the discharge of their respective liabilities should go: that is what an ideal land-tenure demands. But in Bengal the Tenancy Act has adversely complicated land-tenures to an incredible extent.

There are countless grades of ryots with equally countless grades of rights which are the corrosive factors in the disintegration of our agriculture. Under-ryots pay more rent and enjoy less privileges than occupancy ryots. There are grades among under-ryots which have respective grades of rights.[10] The Tenancy Act has accepted the situation.[11] This intensifies the conflict between the higher and the lower peasantry which inevitably shows that peasant-proprietorship is not the only way out.

Share-tenancy has a future in Bengal though it is least protected by the Tenancy Act. Produce-sharing tenants[12] are

10 Sections 48, 48A to 48G, and 49 touch on rights of different grades of under-ryots.

11 The C. P. Tenancy Act of 1920 has made every tenant, whatever the length of his occupation, to be an occupancy tenant or a tenant with a pemanent right of occupation. The right is heritable but the power of transfer is restricted, the law permitting subletting for one year only.

12 In the Punjab rents are usually a fixed portion of the produce and as such rent is a form of income tax. Under Section 3 of the Bengal Tenancy Act of 1928, persons who cultivate the land of another person on condition of delivering a share of whatever may be the actual produce in the year are not 'tenants.' This class covers persons known as 'borgadars,' 'adhiars' and 'bhagdars.' They will not be tenants unless expressly admitted by the landlord or held by a civil court to be

spreading principally in west Bengal because of the infertility of the land, unremunerative nature of holding and the high cost of agriculture. Share-tenancy gives rise to a form of partnership which rests on community of interests and " if it is well organised on the two fundamental bases of division of all the produce and the chief management in the hands of the proprietor, it is indisputably the mode of farming which assures the best revenue from the land." Under a form of share-tenancy, the landlord can seek the best tenant and the tenant can seek the best farm and a good land-tenure must ensure the best tenant on the best farm. " The tenant profits by being on the best land, the landlord profits by having an excellent tenant on his farm." The situation calls for the development of a healthy form of metayage[13] in Bengal.

If landlords enjoy the permanent settlement under Regulation 1 of 1793, occupancy ryots practically enjoy the same privilege in respect of their holdings by virtue of the Tenancy Act. It is certainly an ominous system which permits the bifurcation of possessory rights without reference to discharge of the liabilities, incidental to ownership and occupation of lands. Moreover, sub-infeudations among landlords exist to a scandalous extent. This has been encouraged by the Tenancy Act and fertility of the soil. The process of sub-infeudation is a hindrance to agricultural prosperity: perhaps it is a most powerful factor in discrediting the institution of landlordism. This sub-infeudation makes room for a vast body of middlemen whose interests do not lie in lands but in rents. It has one virtue, if that be a virtue at all, that is, capital without being concentrated in a few hands is distributed over a large number of middlemen which is responsible for Bengal's greater receipts under Customs and Income-tax. Landlords paying revenue to Government do not get any benefit out of this uneconomic arrangement. The multiplication of interests in lands has given rise to countless intermediate tenures, and under-tenures and to attempt an

tenants. Persons who cultivate the land of another person on condition of delivering a fixed quantity of produce, irrespective of the actual produce are however "tenants" and will be 'ryots' or 'under-dyots' as the case may be under the Act.

13 "Metayage is the result of an agreement or a contract by which the lessor, the landholder, the usufructuory or tenant-farmer of a farm gives the metayer or partial metayer (who gives his labour) the temporary enjoyment, under his own direction and supervision, of the land, building and all or part of the live-stock and farm requisites and shares with him the eventual produce in kind or money, whether equally or in some other proportion"—Defined by "Rapport de la commission d'enquete sur la situation du metayage en France," as quoted by Dr. Venn in "The Foundations Of Agricultural Economics."

exhaustive list of tenures or a description of their incidents prevailing in Bengal becomes a huge task. There is one broad characteristic that all permanent tenures are transferable and heritable under the Bengal Tenancy Act. To give a specific instance, there are in Bakergang as many as thirteen persons having successive interests in the land inferior to that of the proprietor Zemindar. In the appendix I give the table of tenures and holdings[14] in Bengal, as constructed by the Hon'ble Mr. Justice Field in his famous work " Landholding and the relation of landlord and tenant in various countries," (1885).

True, Bengal is a permanently settled province but there are temporarily settled estates and Khasmahal estates. Out of a little over Rs. 3 crores of land-revenue, the sum of Rs. 2 crores 15 lakhs and odd comes from permanently settled estates, Rs. 66 lakhs from Khasmahal estates and Rs. 25 lakhs from temporarily settled estates. Roughly 58 thousand square miles are permanently settled, 5 thousand square miles are settled direct by Government and 4 thousand square miles are temporarily settled. Of the temporary settlements, the Sunderbans,[15] settlements are by far the most important. The most important types of settlements are Malguzar leases, Talukdar leases, 99 years' leases, large capitalist leases and ryotwari settlements. If we examine the forms of Kabuliyat[16] for these leases, we find the characteristics, differentiatiing the one from the other. Mulguzar lessees have no power to transfer nor to sublet; Talukdari lessees have liberty to sell, alienate or transfer as tenure-holders; proprietors under 99 years' leases have liberty to sell, alienate or transfer, one-fourth of the estate being exempt from assessment and at the time of renewal (which will be for 30 years) the revenue shall not exceed 45 p.c. of the gross assets of the three-fourths of the estate. Large capitalist lessees have also the liberty to sell, alienate or transfer as tenure-holders; they are subject to renewal for 30 years, one-fourth of the estate being exempt from assessment. In the Sunderbans there are also ryotwari settlements whereunder lands settled shall be heritable

14 The different types of tenures can only be studied from the settlement Reports. Mr. A. C. Gupta in his "Land Systems of Bengal and Behar" has given a fairly exhaustive list of tenures with their incidents.

15 The word "Sunderbans" in its revenue sense means those lands which are declared under Regulation III of 1828 never to have been the subject of a permanent settlement. But is commonly used with reference to all or any of the deltaic lands in the south of the districts of 24-Parganas, Khulna and Bakargang.

16 Published in the Calcutta Gazette, December 5, 1935.

but not transferable and the lessees are "to cultivate their holdings with due diligence to the satisfaction of the Government."

Even in the Sunderbans settlements where the right of transferability exists, intermediate tenures have developed decimating the income of the original lessees. Sunderbans are peculiar in one respect, that is, that the burdens and charges for maintenance of agricultural properties there are heavy and they are sufficient evidence that their owners are "not battening upon a class of helpless tenants."

It is interesting to find that the revenue policy of Government is making a commendable move towards inaugurating ryotwari settlements. Government are recently (say, since 1915) adopting the policy of giving preference to settlements with cultivators. Over and above ryotwari settlements in the Sunderbans the same kind of tenure is practically being encouraged for reclamation of waste lands in the Western Duars in Jalpaiguri. In all these settlements the Government restrict the powers of subletting and transferring whereas the same policy is discouraged with regard to tenants *vis-à-vis* private landlords.

In the Diarah mahals intermediate tenures have grown up. In the Khasmahal estates where leases for shorter or longer periods subsist, there is little room for the growth of grades of ryots. Government can easily give a lead by developing healthy tenures in Khasmahal and temporarily settled estates and can reform the tenancy legislation on sound and scientific lines. Under cover of the Tenancy Act, Government have interfered with the intimate and cherished rights and privileges of landlords and the discredit for the growth of unscientific land-tenures should accordingly be shared by them.

APPENDIX

The Table of Tenures and Holdings in Bengal.—

GOVERNMENT
(*Entitled to Revenue*)

- Jagirdar
- **Zemindar** (paying revenue to Govt.)
  - **Ejarahdar**
    - Darejarahdar or **Ticcadar** or Kat Kinadar
      - **Raiyat**
        - **Lakhirajdar** (Exempt from payment of rent)
          - (1) **Brimutter**
          - (2) **Pirutter**
        - Talukdar
          - Zimba Talukdar
            - Ashat Talukdar
              - **Nim-Ashat** Talukdar
                - **Howladar**
                  - Ahat Howladar
                    - Nim-Ashat Howladar
                      - Nim Howladar
                        - Ashat-Nim Howladar
                          - Mirash Karsha
                            - Kaim Karsha
                              - **Karshadar**
        - Patnidar
          - Darpatnidar
            - Sepatnidar
              - Chahar **Patnidar**
                - Raiyat
        - Jangalbaridar
        - Ganthidar
        - Jotedar
        - **Raiyat**
          - **Sub-raiyat**
            - (1) **Kurfar**
            - (2) **Adhiyardar**
            - (3) **Burgadar**
- **Lakhirajdar** (**Exempt from** payment of revenue to Govt.)
  - (1) **Altamgor**
  - (2) **Ayma**
  - (3) **Madadmast**
- Ghatwa

REFORM OF LAND REVENUE ASSESSMENT: A PUNJAB EXPERIMENT

BY

P. J. THOMAS, M.A., B.Litt., D.Phil.,

One of the principal defects of the present system of ryotwari settlement is that it is not adjusted to the trend of prices in the period during which it is current. If assessment is fixed up towards the end of a period of rising prices, the burden of land revenue becomes heavy when prices fall. On the other hand, settlements made at the close of a period of falling prices become light, and the ryot is tempted to extravagance. Both these have alternately happened in India within living memory. The assessments are made with reference to a commutation rate, which is based on the average of twenty non-famine years It may be true that in times of yore, famine was the principal disturbing element in the course of prices, but it is no longer the case. To-day the prices of the principal commodities are fixed by supply and demand operating on a world scale, and certain long-range fluctuations in the price-level have been going on, at least during the last 150 years. Periods of falling prices are followed by periods of rising prices and such cyclical phenomena have made all fixed charges and debtor-creditor relations matters of great complexity. Partly owing to the upswing of the trade cycle and partly owing to the War and its aftermath, prices rose rapidly since 1914 and remained high till 1929; and therefore the averages of the twenty non-famine years taken for recent settlements were necessarily high and although the increase of the rate is limited to 25 per cent in the Punjab and 18¾ per cent in Madras, even such increase raised the assessments so much that when the crash of prices came in 1929-30, the burden of land revenue (along with other fixed charges) became very heavy. All over India, remissions have been given and will in all likelihood have to be continued for some years more. Thus the system has nearly broken down.

A thirty-year settlement was decided on with a view to giving the landholder a fixity of revenue payments (a canon of taxation highly commended by Adam Smith) and to even out the minor fluctuations in prices; but a fixity of payments where receipts are not fixed, is no advantage to the tax-payer and while the minor

fluctuations were provided for, the major fluctuations were allowed to work out their injurious consequences. The ripples and waves were insured against, but the tides were left to have free play on the boat. The result is that during periods of rising prices, the landholder becomes extravagant and when prices fall rapidly, he is thrown into the slough of despond and the standard of living falls steeply, thus producing unfavourable reactions on industry and trade.

To rectify this deplorable state of things, *either* the price-level must be kept steady, *or* some arrangement must be made whereby the ryot may adjust his land revenue payment to his income from land. In theory the former may be possible; but it does not seem practicable, at any rate in the present economic order. Hence also the absurdity of a permanent settlement of revenue. The more feasible alternative will therefore be to make suitable provision for cyclical fluctuations in prices by having assessments that would automatically adjust themselves to the price-level and to the ability of the assessee.

2. The Punjab Experiment.

In this light, the decision of the Punjab Government announced in February last, to make a new experiment in revenue assessment in the district of Lyallpur and in the Rakh Branch Circle of the Sheikpura district is of great significance not only to that province but to the whole of India. The central idea of the scheme is that the land revenue demand will be adjusted to the price-level.

The main features of this system are: (1) The commutation prices proposed to be introduced by Government are worked out on the basis of the average prices of the previous twenty years in accordance with the existing revenue law, *i.e.*, making the usual deductions for the vicissitudes of season, distance from market, etc. The standard grain share of the State is then commuted in terms of these average prices and thus a set of average assessment rates are arrived at, these differing with the class of land and other factors.

(2) These revenue rates will represent the maxima that the Government can take during the currency of the settlement, (*i.e.*, 40 years). But these maxima rates will not be taken unless the price-level is as high as that represented by the prices of the previous twenty years taken for commutation. If in any year the general level is higher than that represented by the above level, the revenue payers will be given the full advantage of the excess. If it is lower, a remission in the revenue rates will be

given in the following year proportionate to the fall. But the scale of remissions will be in units of 5 per cent on the demand of the year. Thus, while Government will be bound not to exceed the maxima rates as fixed, they will give to the revenue payer the full benefit of the fall in prices, however great that may be.

(3) The percentage of remission due for a particular year is calculated on the basis of index numbers of the aggregative type. By multiplying (*i*) the percentage of the total matured area under each important crop, (*ii*) the average yield per acre of each of those crops and (*iii*) the commutation price assumed for each of those crops, the Government will obtain an index figure. A corresponding index figure will then be calculated for the year previous to that for which remissions are to be given. For this purpose, Government will ascertain from the leading firms the average daily prices actually prevailing in certain *mandis* in the tract under settlement, during different seasons for different crops. From the prices thus obtained appropriate amounts will be deducted on account of transport and marketing charges. These will form the average current prices in the village and on this basis the index will be constructed. The difference of the two index figures will represent the remission to be granted.

Each year a new index figure will be calculated and the amount of remission will depend on the level of prices during the previous year. As the percentage of the area under each crop and the average yield per acre will vary little from year to year except in extraordinary seasons, the percentage of remission will ultimately depend upon the scheduled commutation prices and the market price of products ruling in the previous year as deduced below:

$$R = \frac{(KP - KP_1)\,100}{KP} = \frac{100\,(P - P_1)}{P}$$

where R represents the percentage of remission to be given for the year, K the product of the percentages of the total matured area under the crop and the average yield per acre of the crop, which is assumed as a constant for ordinary years, P represents the level of prices taken for the maxima revenue rates and P_1 represents the prevailing average prices at the villages in the previous year.

3. The Olungu Settlement.

It may be of interest to recall in this connection that a similar experiment was carried out in the Madras Presidency a hundred years ago under the stress of a depression (1820—50), which is in some ways comparable to the present one.[1] It was tried in two important districts of the Madras Presidency, *viz.*, Tanjore and Tinnevelly. When the collection of revenue had become difficult in the former district in spite of the efforts of the Government after repeated remissions,[2] a new system was devised by which a sliding scale with reference to a standard was constructed from the average prices for a certain number of previous years. This system was known as the Olungu.[3] A table of money rates were laid down for each village which were to be decreased when the price of grain fell by a sensible degree, i.e., 5 per cent or more below a certain *nirruck* or standard and increased when it rose 10 per cent or more above that *nirruck*. "To meet, however, future fluctuations in the price of grain" says a letter of Government to the Board of Revenue, "to the same extent as the fall which has made the reduction of the assessment necessary, it may be useful to specify beforehand the way in which the Governor-in-Council has thought fit to resolve that future settlements shall be affected by them. You will accordingly instruct the principal Collector to make known, that a further reduction will be allowed if the price of grain shall fall 5 per cent below its present price and that no increase shall take place unless it rises 10 per cent."[4]

The system introduced under such conditions became popular at first and mirasidars of about 90 per cent of the *nanja* or wet lands took to it voluntarily. But various mistakes were made in the working of it and as the Government subsequently admitted, this led gradually to its unpopularity. The Olungu standards in Tanjore were formed "so as to suit certain preconceived views" about collections.[5] The grain standards were raised deliberately by roundabout methods.[6] The commutation

1 Thomas and Natarajan : *Economic Depression in the Madras Presidency* (1820-50), (Madras University Journal, July 1934.)

2 *Tanjore District Manual*, p. 560.

3 A Tamil word, literally meaning proper or regulated.

4 From the Government Fort St. George to the Board of Revenue dated 10th July 1821.

5 Tanjore District Gazetteer, p. 178.

6 Ibid.

prices adopted for the *nirruck* did not take the average of all the previous normal years into account.[7] The prices taken for determining the current price-level were the retail prices without adequate reduction for marketing and transport charges and therefore high.[8] Finally the ryots had to pay the assessment even for lands that had been relinquished.[9] Hence the system became unpopular after some years. But with wide fluctuations in its fortune, it survived in Tanjore till about 1860.

On the other hand, the system was a great success in the district of Tinnevelly where it was introduced at about the same time (1822-23) and before 1837 the whole district except the lands belonging to the Chockumputty forfeited estate had come under it. This was because the mistakes committed in Tanjore were sedulously avoided here. The curves appended will bring out the gains and losses of the ryots of the two districts under the system.

The success of the system attracted the attention of the collectors of other districts. When the question of revision of the commutation rates came up for Nellore, Mr. Stonehouse, the Collector wrote as follows in 1842:—" The system would tend to improve the condition of the ryots, would be better suited to their own wishes and feelings and is one which will secure to the Government a surplus revenue when prices are high which they now for the most part lose, while the loss when prices are low, would only then fall upon the Government as it now does not nominally but virtually by the non-realization of that portion of the revenue which the ryots from the cheap prices of grain are unable to pay, except by the sale of a part of the property."[10] Even as late as 1933, the mirasidars of Tanjore appealed to Government for a revival of the system.[11]

4. Merits of the System.

The old Olungu settlement of Madras and the new system adopted in the Punjab both embody the principle of regulating the assessment according to the ability of the assessee as measured

7 From Collector of Tanjore to Board of Revenue dated 29th January 1853, para 3.

8 Report from the Collector H. D. Phillips, dated 28th July 1858.

9 Tanjore District Manual, p. 575, para 119.

10 From the Collector of Nellore to the Board of Revenue dated 8th August 1842.

11 Memorandum submitted by the mirasidars of Tanjore in 1933, para 14.

by his money income from land. The principal difference is that while in the Olungu the Government laid claim to an increase of assessment when prices rose above the standard, in the Lyallpur system the Government does not claim a share over the maxima rates, however much prices may rise. But these maxima may not be reached for some time.

The Punjab Government has avoided some of the defects of the Olungu system and in this it is helped by the better statistical data that are available to-day. To those who managed the Olungu, only the doubtful figures of prices supplied by the village accountant were available, but to-day more accurate statistics are maintained by Government and all such statistics can be examined by the public. The accuracy of the prices used is now enhanced by the deduction from *mandi* prices of appropriate amounts for transport and marketing charges and by the system of taking the prices of different crops in the seasons in which sales chiefly take place. There has always been some popular objection to the use of statistics for regulating wages and the same objection may now be urged against the application of statistics to land revenue assessment. But price statistics have always been used for settlements of land revenue and what is now attempted is to make the statistics more accurate and less secret.

One serious objection that may be raised against the new system is that the revenues of the State will vary from year to year, thus making it difficult for Government to forecast income and draw up accurate estimates of their expenditure. But this is not very serious, considering the precision and ease with which Governments in other countries are able to frame their budgets, even though nearly all the sources of their revenue are variable.[12] And further, though it may be impossible to gauge the range of wide fluctuations over long years, the smaller fluctuations in prices from year to year may with tolerable accuracy be forecast; and hence estimates of income may also be based upon this variation and expenditure can also have to be adjusted accordingly.

The Olungu system made some provision for such fluctuations by having a standard rate, and by laying down the rule that reduction from, or additions to, revenue will be made only

12 In this connection it may be interesting to point out that in England income-tax and sur-tax rush in during the last two months of the financial year disturbing revenue estimates. An extreme case is Poland where at the advice of Sir Hilton Young, the period adopted for budget accountings is one month: See *Unbalanced Budgets* by H. Dalton and others, p. 14.

if there are wide fluctuations (*i.e.*, only if prices go down by 5 per cent or rise above 10 per cent). In the Punjab system remissions will only be given in multiples of five.

Further, the new system is not adopted all over the Punjab at the same time. It was lately introduced into one district as it came up for resettlement. Therefore the disturbance caused will not be more than usually arising from periodical resettlements. And it will be some time before the whole Province comes under the new system.

In a world where prices and economic conditions generally fluctuate widely from period to period, it is too much to expect that revenue and expenditure must remain steady. If revenue is necessarily variable, expenditure can also be allowed to vary without any great inconvenience. The main establishments of Government must be permanently maintained, but there are various items of expenditure which can be varied according to the conditions of the time. Further, in a period of falling prices, there would be an automatic fall in the expenses of Government, and it is not unreasonable to change the level of wages and salaries according to the price-level. In order to avoid wide variations in expenditure from period to period, Government may build up reserves in times of prosperity, and spend them in times of depression. Governments are generally no better than farmers, whom they accuse of becoming extravagant during periods of rising prices; is it any wonder if some Governments cut a sorry figure in times of depression? This can be avoided with great advantage to all if Governments regulate their expenditure according to a carefully made plan. In times of rising prices, it is wasteful to launch on large public works, but if such works are executed in times of falling prices, the cost would be less and the effect on purchasing power would be beneficial. This opens out a large question which has lately been receiving wide attention in Europe. It need not be pursued in this connection.

It may be said in conclusion that by adopting a system of land revenue assessment based on price-level, the agitation in regard to the burden of land revenue will lose its force to a great extent and Government will be able to rehabilitate its land revenue system without any great disturbance to the present fiscal framework. Land revenue will thus become more elastic and will better adjust itself to the tax-payer's ability. What is more, the system will discourage extravagance and encourage thrift in Governments as well as among the people—a goal worthy to be pursued on every ground.

There are obvious difficulties in introducing the new system in its entirely to other provinces, but the main principles can be adopted over a good part of the country without greatly distributing existing arrangements.

AN EXAMINATION OF THE LAW OF ENHANCEMENT OF RENT IN BENGAL

BY

SATYENDRA NATH SEN, M.A.,

Asutosh College, Calcutta.

It is one of the commonplaces of Indian economics that agriculture in India is extremely undercapitalised. Scarcely any capital has been sunk in the land. Manuring is seldom done; permanent improvements, in the shape of drainage works, irrigation, etc., have not been undertaken on the scale desirable. All these point to the immediate necessity of investing more capital in land, if agriculture is to be rehabilitated as a prosperous industry. Since the system of land tenure is one of the main influences which affect the investment of capital, we must create such conditions of land tenure which will stimulate the maximum flow of capital to the improvement of land. In order to ensure this, it is agreed on all hands that the landlord's right to enhance rents should be restricted. But it has been argued that it would aggravate the disease which it is intended to cure. I propose, therefore, to examine the working of the provisions of the Bengal Tenancy Act, relating to the enhancement of rent. I shall discuss only those sections which affect the occupancy raiyats and under-raiyats. The number of non-occupancy raiyats is so small that it will not be a material error, if we leave them out of account. Enhancement of rent in the case of tenure-holders will influence the agricultural conditions only by affecting the rents of the cultivators. Hence we can safely concentrate our attention only on the occupancy raiyats and under-raiyats.

During the Hindu period, land revenue was regarded more or less, as a land tax. The king's share, which varied between one-sixth to one-third of the gross produce, was fixed differently at different periods, obviously depending on the nature of the administration, the condition of the Exchequer, etc. No definite rules could be found regarding the enhancement of rent. The Muslim kings also looked on land revenue as a tax, and its rate varied with different rulers. The usual mode of enhancing the rent was not to change the *asle* jama, or the standard rate, but to levy cesses on the collectors of revenue and the raiyats. These

abwabs were subsequently added to the main jama, which was thereafter fixed at a new and generally enhanced rate. The idea during this period, was fixity of rent, which was only changed only when the needs of the rulers or chiefs increased. We have failed to find any record of the principles under which enhancements were made. The deliberate control of the enhancement of rent according to some definite principles was the creation of the British land revenue administration.

When the Permanent Settlement Regulations were passed, nothing was said about the share of the land revenue to be paid by the cultivators. The underlying idea of the *Pottah* Regulation was that the actual rents would also be fixed permanently. But the period after 1793 saw a great competition for land, and the Zamindars were able to enhance the rents all round, so much so that we find Raja Rammohan Roy, himself a zamindar, stating before the Parliamentary Select Committee that the raiyats were rack-rented. The great Raja even recommended, as a remedy, the fixing of the rents of the cultivators permanently. In the Tenancy Act of 1859, the government tried for the first time to put some limitations on the landlord's right of increasing rents. But this act remained, more or less, ineffective. Finally, the Bengal Tenancy Act was passed in 1885, and this act laid down certain definite principles regarding the enhancement of rent. It is our purpose to examine the effects of this act, how far the relevant sections of this act conform to the theory of rent, and how far these will provide the appropriate stimulus to the development of agriculture.

According to the theory of rent, the money rent of a holding will increase because of two reasons. First, if the prices of agricultural produce increase, rents will rise, first, on account of the increased money value of the same amount of surplus produce, and secondly, on account of the increase in the producer's surplus itself. Secondly, rents will increase if, other things remaining equal, any improvements increase the productive powers of the land. It is recognised, however, that given the same level of demand, aggregate rents will fall if improvements increase the produce of the land.

The Tenancy Act recognises both these two principles. If the increase in the productive powers of the land is due to any improvement made by either the landlord or the tenant, then the increased share of the produce will be enjoyed by the party making the improvement. If, however, the increase is due to natural causes, such as fluvial action, the surplus will be shared by both. Moreover, if the prices of food-stuffs rise, the rent of

a holding can be enhanced by the proportion by which prices during the decade immediately preceding the institution of the suit have risen above the prices in any other previous period.[1]

We shall first of all examine the provisions regarding the enhancement of rent on the ground of any improvement made either by the landlord or by the tenant. These provisions were intended to facilitate the investment of capital in land. Now, it is of course the interest of the tenants to make such investments, since they will be able to enjoy the full benefits. But it is well-known that the tenants are not in a position to invest substantial amounts of capital in their holdings. We must therefore look to the landlords for any improvement of land. But here it has been urged that the provisions of the Bengal Tenancy Act stand in the way of investment of capital in land by the landlords.[2] The main charge is that if the tenant refuses to pay enhanced rent by voluntary contract, the landlords will have to go to courts. But recourse to the courts is extremely expensive and prolonged. Hence the landlords cannot be expected to invest anything in land.

The charge is serious. It is necessary, therefore, to examine the relevant sections of the act. Under Sec. 29, the money rent of an occupancy holding can be enhanced by a contract between the landlord and the tenant in consideration of an improvement which has been, or is to be effected by or at the expense of the landlord. There is no limit to the amount by which rents can be increased. Enhancement of rent under this section will therefore depend on the consent of the tenant. If there are cordial relations between the landlord and the tenant, and if the improvements really add to the productivity of land, why should the landlord fail to secure the consent of the latter? But supposing the tenant refuses to pay the enhanced rent, the landlord will of course have to go to the courts. But here it might be pointed out that if a suit involved the landlord in a huge expenditure of money, it will also entail such expenditure on the part of the tenants. And therefore the fact that the landlord has the alternative of going to the courts, and thus forcing the tenant to spend money in defending the suit might bring the recalcitrant

1 Rent could also be enhanced up to the limit of the rent paid by the majority of the raiyats, cultivating similar lands in the neighbourhood (S. 30 (a)). Once this has been done in case of all raiyats, no further increments could be secured. Real enhancement can only be secured on these two grounds.

2 For example in the evidence of Sir P. C. Mitter before the Taxation Enquiry Committee. See also Dr. K. B. Saha's *Economics of Rural Bengal.*

tenants to reason, and induce them to voluntary enhancement. So I do not think that if the landlord is serious, there would be any difficulty in securing an enhancement of rent by voluntary contract, when the tenant knows fully well the financial resources of the landlord. The fact is that the zamindars in Bengal are not land-improving landlords; their virtues are even to this day negative rather than positive. Even during the period, 1793—1859, when they had an almost unlimited power of enhancing rents without going to the courts, they scarcely invested anything in land. Evidence on this point is almost overwhelming. Raja Rammohan Roy, for example, stated in his evidence before the Select Committee that the landlords did not invest any capital in the improvement of land. Even as late as 1868, we find the following statement, in the "*Statistics of Agriculture in Bengal,*" —"improvements in agriculture are few and rare. The zamindar is often an absentee landlord, caring only for his rents, which his agents are expected to remit with punctuality and in full tale."[3] Our zamindars have seldom shown any desire to follow the example of Coke or "Turnip" Townshend. They have been too much busy, in the first period, in increasing and exploiting their rights; and in the second period, in defending their rights. As a result, they have forgotten their duties. The only justification of landlordism in the agricultural economy of a country lies in the fact that it supplies capital at a cheap rate. By omitting to perform this all important function, the landlords of Bengal have certainly made themselves open to grave censure.

It may be argued that whatever might have been the position in the past, the landlords do not feel encouraged at the present moment to invest capital on account of the difficulty of securing a decree for an enhancement of rent through the courts. This must be admitted to be true to some extent. We must therefore try to find a solution so as to make it easier for the landlords to secure an enhancement of rent on the ground of any improvement undertaken by them. The defect lies, not in the provisions of the act, which are unobjectionable, but in the administration of the act through the ordinary law courts. The fact is that the law courts are not the proper place for the trial of such cases. We ought to establish land courts all over the province. These should be bodies with a real knowledge of agriculture, and should be composed of a President,—who should be an advocate of at least

3 This book is an abstract of the numerous enquiries made into the agricultural conditions by the Bengal Social Science Association; and as such, we might accept the verdict as an accurate summing-up of the then position in Bengal.

10 years' standing,—a representative each of the Department of Agriculture, the landlords and the tenants. The unit of area of each court should be small enough to avoid centralisation and to retain touch with local conditions, and yet large enough to escape the dangers of favouritism and personal pressure. It might be argued that such a series of courts would only provide fresh work for lawyers and would mean a new staff of costly officials. But the proceedings of the Scottish Court have shown that such a court can work in a simple and inexpensive way. Moreover, the mere fact that the landlords and the tenants can at any time go to these courts will certainly exercise a restraining influence on them so that they will try to settle the whole matter amicably. As a result, the number of such suits would actually diminish.

The establishment of such courts will not therefore mean an additional spoke in the wheel of litigation. On the other hand, it will provide the much needed elasticity to the system of land revenue in Bengal. At the present moment, while it is not difficult for the landlords to secure an enhancement of rent, it is almost impossible for the tenants to obtain a decree for the reduction of rents through the courts. The tenancy act of course contains provisions for the reduction of rent when the prices of food-stuffs decrease. But they are actually denied this privilege owing to the fact that the procedure through the courts is costly as well as complicated. The establishment of the land courts will simplify matters. Whenever in any region, agricultural prices show a substantial and prolonged fall, the land court of that area should decree that rents should be reduced by an amount which should be proportional to the fall in prices. When a land court issues such a decree, all landlords must collect rents at the reduced rate. Similarly, when prices will rise for a sufficiently long period, all rents would be collected at the enhanced rate decreed by the land court. These courts will, therefore, not only mean great savings of money now spent on litigation, but will also afford considerable relief to the distressed peasantry of our country.

The second ground on which rents can be enhanced is the rise in the prices of food-stuffs. We have seen that when prices rise, money rents will increase because of two reasons: first, because the money value of the same amount of surplus has risen, and secondly, because the surplus itself has increased due to a lowering of the margin. The Tenancy Act allows an enhancement only to the extent of the rise in prices. But the landlord gets no benefit of the increase in the producer's surplus. The latter is enjoyed solely by the occupancy raiyats. This would certainly have meant well for the agricultural economy of the

country, but for one fact. The occupancy raiyats, finding that while the profits from their holdings are increasing, rents are not increasing in the same proportion, have already begun to sub-let their holdings to the under-raiyats, and are becoming merely rent-receivers. The law, as it stands to-day, gives inadequate protection to the under-raiyats, and this means serious menace to the agricultural conditions. The actual tillers of the soil now possess no serious incentive to improve their methods of cultivation, nor to invest any capital in their holdings. We must, however, create such conditions of land tenure as will give the actual workers on the soil the utmost freedom and encouragement.

The gradual passing of occupancy privileges into the hands of non-cultivating rent-receivers cannot therefore be looked upon with indifference. The law certainly wanted to confer such privileges only on the actual cultivators. When the raiyat ceases to be a cultivator and sub-lets his lands, why should he enjoy the advantages of the law of occupancy rights to the exclusion of his sub-tenants? The remedy lies, therefore, in the prevention of sub-letting and in the recognition of the under tenants as occupancy raiyats. Such sub-letting of lands is prohibited in many countries. Under the three land laws of 1919, holding in Denmark cannot be sublet. And in the new agrarian legislation in most of the Central and Eastern countries, sub-letting of land has been put under stringent regulations. In our country, in the C. P., under the new tenancy act, all cultivators have been recognised as occupancy raiyats, and the subletting of holdings is not permitted for more than one year. It is necessary therefore to incorporate these features in the tenancy legislation of our province. If any occupancy raiyat sub-lets or leases any portion of his holding for more than one year, he will forfeit all privileges, which will henceforth be enjoyed by the under-raiyat.

I do not think that it is necessary, for this purpose, to prohibit or restrict in any way the right of transfer of holdings. If these are passing from the cultivators to the money-lending classes, the fault lies not in the act itself, but in the inadequate credit organisation of the country. The remedy lies not in preventing the transfer of holdings, but in the provision of better credit facilities. What is necessary is to prevent the sub-letting or leasing of holdings, either at a money rent or at a produce rent. This will confer the benefits on those whom the law wanted actually to benefit.

The tenancy laws therefore require modification in certain directions. The administration of the act should be transferred

from the ordinary law courts to the land courts. The under-raiyats should be guaranteed fixity of tenure and fair rents; and sub-letting or leasing of holdings should be put under stringent restrictions. These will only create the conditions favourable to the investment of capital in land, but will not ensure the flow of capital so long as the holdings are extremely small. It is necessary, therefore, not only to modify the land laws, but also to take steps to consolidate the holdings into large and compact sizes. The landlords, moreover, should be impressed with the duty of investing capital in their lands. Public opinion ought not to tolerate the existence of a class of landlords who want to remain as functionless rent-receivers.

SOME ASPECTS OF THE POST-DIWANI LAND REVENUE SYSTEM IN BENGAL AND BIHAR

BY

D. N. BANERJEE,

Reader and Head of the Department of Economics and Politics, University of Dacca.

I

Introduction.

In a previous paper read[1] before the 17th Indian Economic Conference I have described the land revenue system as it obtained in Bengal and Bihar during the first few years of the acquisition of the Diwani by the East India Company in 1765. Among other things, I have explained there the manner in which revenues derived from lands were actually collected, and also the nature of the various arbitrary, additional demands, known as " Mathutes " or Abwabs, which the poor peasant had to meet. I have also stated there that the miserable condition of the peasantry in Bengal and Bihar continued practically unaltered till 1772, although ameliorative measures like the appointment of Supervisors with powers of superintending the native officers employed in collecting the revenue or administering justice, in different parts of the country, and the institution[2] in 1770 of two Councils of Revenue at Murshidabad and Patna under the direction of the Court of Directors, dated the 30th June, 1769, had been adopted in the meantime.

Finally, I have mentioned there that in a letter, dated August 28th, 1771, the Court of Directors wrote to the President and Council at Fort William:—

" We are necessitated to seek . . . the full advantage we have to expect from the Grant of the Dewanny. It is therefore

1 Published in the Conference Number (1934) of *Indian Journal of Economics.*

2 The Councils of Revenue were instituted on July 6th, 1770. The Council at Moorshedabad was constituted of Mr. Becher, Mr. Reed, Mr. Lawrell and Mr. Graham; and that at Patna, of Mr. Alexander, Mr. Vansittart and Mr. Palk.—*Foreign Dept. Secret Proceedings*, Fort William, July 6th, 1770.

our determination to stand forth as Dewan, and by the agency of the Company's servants, to take upon ourselves the entire care and management of the Revenues. In confidence, therefore, of your abilities to plan and execute this important work, we hereby authorize and require you to divest Mahomet Reza Cawn and every person employed by or in conjunction with him, or acting under his influence, of any further charge or direction in the Business of the collections, and we trust, that in the office of Duan you will adopt such regulations and pursue such measures as shall at once ensure to us every possible advantage and *free the Ryot from the oppressions of Zemindars and petty Tyrants*, under which they may have been suffered to remain, from the interested views of those whose Influence and Authority should have been exerted for Their Relief and protection."

This letter was received per *Lapwing Snow* by the President and Council on the 23rd of April, 1772, and all necessary actions were taken by them accordingly. In this paper[3] I propose to narrate only the measures which the President and Council adopted in 1772 for the future management of revenues.

II

State of Affairs in the Province.

Before, however, I deal with the steps which the President and Council took for the future management of revenues, I should like to refer to the state of affairs in Bengal when the commands of the Court of Directors referred to above, were received by *the Lapwing*.

Although seven years had elapsed since the Company acquired the Diwani, "yet," write the President and Council of Bengal in a letter,[4] dated November 3rd, 1772, addressed to the Court of Directors, " no Regular Process had ever been formed for conducting the Business of the Revenue. Every Zemindarree and every Taaluk was left to its own Peculiar Customs. Those

[3] This paper is based upon contemporary, official manuscript records, some of which are published here for the first time, and the Fifth Report (published in 1773) of the Committee of Secrecy 'appointed by the House of Commons in the Sixth Session of the 13th Parliament of Great Britain, to inquire into the state of the East India Company.'

[4] Revenue Department: General Letter to the Court, Received in England per Lapwing on 17th April, 1773.

indeed were not inviolably adhered to. The Novelty of the Business to those who were appointed to superintend it, the Chicanery of the People whom they were obliged to employ as their Agents, the Accidental Exigencies of each District, and not unfrequently, the just Discernment of the Collector, occasioned many changes. Every change added to the confusion which involved the whole, and few were either authorized or known by the Presiding Members of the Government. The Articles which composed the Revenue, the form of keeping Accounts, the Computation of Time, even the technical Terms, which ever Form the greatest part of the obscurity of every Science, differed as much as the Soil and Productions of the Province. This confusion had its origin in the Nature of the Former Government. The Nazims exacted what they could from the Zemindars, and great Farmers of the Revenue, whom they left at Liberty to plunder all below them reserving to themselves the Prerogative of Plundering them in their Turn, when they were supposed to have enriched themselves with the Spoils of the country. The Mutteseddees[5] who stood between the Nazim and the Zemindars, or between them and the people, had each their Respective shares of the public wealth. These Profits were considered as illegal Embezzlements, and therefore were taken with every Caution which cou'd ensure Secrecy; and being consequently fixed by no Rate, depended on the Temper, Abilities or Power of each individual for the Amount. It therefore became a Duty in every Man to take the Most effectual Measures to conceal the value of his Property, and elude evry Enquiry into his Conduct, while the Zemindars and other landholders who had the Advantage of long Possession, availed themselves of it by complex Divisions of the Lands, and intricate Modes of collection, to perplex the Officers of the Government and confine the knowledge of the Rents to themselves. It will be easily imagined that much of the current Wealth, stopped in its way to the Public Treasury."

There were different agencies for the collection of land revenues in different parts of the province of Bengal. A part of the lands which had been in the possession of the Company, such as Burdwan, Midnapore and Chittagong, continued subject to the authority of their chiefs who were immediately accountable to the President and Council at Calcutta. The 24 Pergunnahs which had been "granted by the Treaty of Plassey to the

[5] I.e. clerks or writers.

Company, were theirs on a different Tenure, being their immediate Property by the Exclusion of the Zemindars or hereditary Proprietors." Their rents were received by agents appointed to each Purgunna, and then remitted to the Collector who used to reside in Calcutta. And the rest of the Province was for some time entrusted to the joint charge of the Naib Diwan and the Resident at the Durbar, and afterwards to the Council of Revenue at Moorshedabad, and to the Supervisors who were accountable to that Council. Thus " the Administration itself was totally excluded from any concern in this Branch of the Revenue."

The internal arrangement of each district also varied. The lands which were subject to the same collectors, were some held by Farm, some superintended by Shicdars or Agents on behalf of the Collectors, and some left to Zemindars or Taluckdars themselves under various degrees of control. Farmers would rack the lands held by them wiitohut mercy, because their leases were but of a *year's standing.* They had no interest or check to restrain them from exacting more than their lands could bear. The Collectors were not often able, with the greatest degree of attention on their part, to detect or prevent the embezzlement of rents by their Shicdars or agents. Nor were the lands left to the Zemindars or Taluckdars free from the prevailing general corruption.

The administration of justice which has so intimate a connection with the question of revenue, was also in a very unsatisfactory condition, owing to the fact that the Nizamut and the Diwani were in different hands. Nor was any reformation possible so long as this state of things continued. The security of private property which " is the greatest Encouragement to Industry, on which the Wealth of every state depends," could not exist in these circumstances. " The Regular Course of Justice," write the President and Council of Bengal, " was everywhere suspended; but every Man exercised it who had the power of compelling others to submit to his Decisions. The People were oppressed; they were discouraged, and disabled from improving the Culture of their Lands, and in Proportion as they had the Demands of Individuals to gratify, they were prevented from discharging what was legally due to Government."

Moreover, the poor ryot was subjected " to a variety of Taxes called Aboabs, which had been indiscriminately levied at different periods by the Government, the Zemindars, farmers, and even by the inferior Collectors." Duties were also arbitrarily levied ' by the Zemindars and Farmers upon all Goods and

Necessaries of life passing by Water, thro ' the interior parts of the Country.' Fines, known as the Bazee Jumma, were levied for petty crimes and misdemeanour. Thirdly, there was a tax upon marriage. It was called the Haldarry.[6] It is said to have been very injurious to the State as it tended ' to the discouragement and decrease of population.' Lastly, there was another arbitrary impost called Najay. It was an assessment " upon the actual inhabitants of every inferior division of the lands, to make up the loss sustained in the rents of their neighbours who had either died or fled the country." This tax, say the President and Council of Bengal, " though equally impolitic in its Institution and oppressive in the Mode of exacting it, was authorized by the Ancient and general usage of the country. It had not the sanction of Government, but took place as a Matter of Course, In ordinary cases, and while the Lands were in a State of Cultivation it was scarcely Felt, and never or Rarely complained of. However irreconciliable to strict Justice, it afforded a Reparation to the State for occasional Difficiencies; it was a kind of Security against desertion by Making the Inhabitants thus Materially responsible for each other; and Precluded the inferior Collector from availing himself of the Pretext of Waste or Deserted Lands to withhold any part of his collections." The tax became an insupportable burden upon the people after the famine of 1770. As it was not levied according to a fixed rate or standard, it ' fell heaviest upon the wretched survivors of those villages which had suffered the greatest depopulation, and were of course the most entitled to the Lenity of Government.' Moreover, it afforded an opportunity ' to the Farmers and Shicdars to levy other contributions on the people under color of it, and even to increase to whatever magnitude they pleased, since they were in course the Judges of the loss sustained and of the proportion on which the inhabitants were to pay to replace it." Naturally, complaints against this tax were universal throughout the Province of Bengal. Its oppressive character will be evident from the following facts.

The dreadful famine of 1770 which was responsible for the loss of at least one-third of the inhabitants of this Province did not, in spite of " the consequent decrease of the cultivation," produce any noticeable effect upon the revenue of the Province. On the other hand the net collections of the year 1771 exceeded

6 This and any other imposts which had proved very oppressive to the people, were abolished by the Committee of Circuit mentioned hereinafter.

even those of 1768. This will be clear from the figures given below:—

Bengal year.	Net collections in rupees.
1175—or 1768 . . .	15254856—9—4—3
1176—or 1769, the year of dearth which was productive of the famine in the following year.	13149148—6—3—2
1177—or 1770 the year of famine and mortality.	14006030—7—3—2
1178—or 1771 . . .	15333660-14—9—2

It was naturally to be expected, say the President and Council of Bengal, that the diminution of the revenue should keep an equal pace with the other consequences of the terrible famine. "That it did not was owing to its being violently kept up to its former standard" with the help of such taxes as the Najay.

Such was the state of affairs when the Commands of the Court of Directors were received by the Lapwing. As has been stated before, they directed the abolition of the office of Diwan and authorized the President and Council to assume the management of the Diwani in the name of the Company, without any foreign intervention. The President and Council thereupon removed Muhamed Reza Cawn "from the office of Naib Diwan for the Province of Bengal, and Shitabroy from the same office for the Province of Bihar, and issued, at the same time, a proclamation at Moorshedabad and at Patna, advertising the removal of those officers and the abolition of the office of Naib Diwan of the provinces." Moreover, they directed the Chief and Council of Revenue[7] at Moorshedabad and the Chief and Council of Revenue at Patna[8] to take charge, for the time being, of the office of Diwan of their respective Provinces, until a proper plan could be settled "for the conduct and management of so important a Trust," namely, the business of Revenue. Apart from these administrative measures, the points which principally claimed the attention of the President and Council[9] were "to

7 Vide Bengal Secret Consultation of April 28th, 1772.

8 Vide Bengal Secret Consultation of May 7th, 1772.

9 Revenue Dept., General Letter to the Court of Directors, dated Fort William, the 3rd November, 1772, para 14.

render the Accounts of the Revenue simple and intelligible, to establish fixed Rules for the collections, to make the Mode of them uniform in all parts of the Province, and to provide for an equal administration of Justice." And they now took necessary steps for obtaining these ends.

III

Revenue Regulations.

In a letter,[10] dated April 16th, 1772, the Controlling Committee of Revenue[11] at Fort William wrote to the Chief and Council of Revenue at Moorshedabad the following, among other things:—

"The Bengal year 1178 is now expired and the period near approaching for making a new settlement of the Revenues; but as we are desirous of effecting this upon a plan of greater Duration and stability than the settlements of late years have been, we would wish to proceed therein with proper deliberation and attention. Farming the Lands upon long Leases, is a measure in which not only the prosperity of the country and the Interest of Government, will be found materially to consist, but also in conformity to the orders[12] of the Hon'ble Court of Director."

The Chief and Council of Revenue at Moorshedabad were also directed by this letter to instruct the Supervisors not to enter into any engagements for the new year's revenue until they had received further orders from the Controlling Committee of Revenue.[13]

The Controlling Committee then took up the question of revenue for its consideration at a meeting held on the 14th of

10 This letter being of an urgent nature was despatched during the recess of the Controlling Committee. Vide Revenue Department: Controlling Committee of Revenue, Original Consultation (O. C.), No. 1, 8th May, 1772.

11 This was a Committee of the whole Council at Fort William and its determination was final.

12 E.g., the Court of Director's General Letter to Bengal, June 30th, 1769, para 21. ...

13 It may be noted here that the President and Council had in the meantime, in reply to a letter of the Revenue Council at Patna, dated 14th September 1771, sanctioned the latter's proposal for letting the Province of Bihar on a lease for three years.—Bengal Public Letter to Court, dated 15th November, 1771.

May, 1772, and stated its arguments in support of the two points on which it had already decided, namely, "to dispose of the lands to farm," and "on long leases," in the following words:—

"It has already been resolved in consultation of the 16th ultimo,[14] to lett the Lands of the province in farm, and for long leases; and this resolution has been communicated to the Court of Directors in the last general letter: This, therefore, being the ground-work of our deliberations on the general measures which are to be taken for the future settlement of the collections, it may not be improper in this place to assign the Reasons which have induced us to form these Resolutions.

"There is no doubt that the mode of letting the lands in farm is in every respect the most eligible: It is the most simple, and therefore best adapted to a government constituted like that of the Company, which cannot enter into the detail and minutiae of the collections. Any mode of agency, by which the rents might be received, is liable to uncertainty, to perplexed and inextricable accounts, to an infinity of little balances, and to embezzlements; in a word, both the interest of the State and the property of the people must be at the mercy of the agents; nor is it an object of trivial consideration, that the business of the service, already so great that much of it is unavoidably neglected, would be thereby rendered so voluminous, and the attention of the board so divided, that nothing would be duly attended to; the current affairs would fall into irrecoverable arrears, the resolutions upon them be precipitate and desultory, the authority of the government set at nought, the power which it must necessarily delegate to others would be abused, and the most pernicious consequences ensue, from the impossibility of finding time to examine and correct them: That such would be the case we with confidence affirm, since we already experience the existence of these evils in part, from the great increase of affairs, which has devolved to the charge of this government, and the want of reduced system, no less than from a want of immediate inspection and execution: This is a point well worth the attention of the board, in every proposition that may come before them as essentially respecting the constitution and general interests of the Company.

[14] The resolution alluded to does not appear on the Consultation of the 16th of April, 1772. It probably refers to the letter of the 16th of April, 1772 mentioned in Footnote 9 above.—Vide the Committee of Revenue Consultation, Fort William, of 8th May, 1772.

"To let the lands for long leases is a necessary consequence of letting them: The farmer who holds his farm for one year only, having no interest in the next, takes what he can with the hand of rigour which even in the execution of legal claims is often equivalent to violence: He is under the necessity of being rigid, and even cruel; for what is left in arrear after the expiration of his power, is at best a doubtful debt, if ever recoverable; he will be tempted to exceed the bounds of right, and to augment his income by irregular exactions, and by racking the tenants, for which pretences will not be wanting, where the farms pass annually from one hand to another. What should hinder him? He has nothing to lose by the desertions of the inhabitants or the decay of cultivation; some of the richest articles of tillage require a length of time to come to perfection; the ground must be manured, banked, watered, plowed, and sowed, or planted; Those operations are begun in one season, and cost a heavy expence, which is to be repaid by the crops of the succeeding year: what farmer will either give encouragement or assistance to a culture of which another is to reap the fruits. The discouragements which the tenants feel from being transferred every year to new landlords are a great objection to such short leases—they contribute to injure the cultivation, and dispeople the lands; they deprive the industrious Ryot of those aids known by the appellation of Tuccaubee, which a more permanent farmer will ever find it his interest to supply, as a means of promoting an increased cultivation; and they of course prove an insurmountable obstacle to bringing into an arable state the immense tracts of waste land which overspread this fertile country.

"The defects of short leases point out, as a necessary consequence, the opposite advantages of long farms.

"From these the farmer acquires a permanent interest in his lands; he will for his own sake lay out money in assisting his tenants, in improving lands already cultivated, and in clearing and cultivating waste lands; he will not dare to injure the rents, nor encroach in one year on the profits of the next, because the future loss which must ensue from such a proceeding will be his own; the tenants will grow familiarized to his authority; and a mutual attachment is at least more likely to proceed, from a long intercourse between them, especially when their interests are mutually blended, than from a new and transitory connection which is ready to expire before it can grow into acquaintance.

"Such are the arguments which have occurred to us in support of the two points on which we have already determined, namely, to dispose of the lands to farm, and on long leases,

"We are happy to reflect that the commands of our honourable masters, in many of their late general letters, ... strongly inculcate the same opinion."

I have quoted this long statement in view of its importance in the land-revenue history of Bengal. Indeed, it appears to me to be an important landmark in that history. It terminates the pernicious system of annual settlement of land revenue and introduces the beginning of long-term settlement thereof. This will be evident from what follows.

After stating the arguments quoted above, the Controlling Committee proceeded to the final consideration of the measures requisite for the settlement of collections and adopted twenty-four resolutions. I shall mention here the most important of them for my present purposes.

In the first place, it resolved that farms should be let for the fixed term of five years commencing from the 1st of Bysaac, 1179, or the 10th of April, 1772.

The only general principles which guided the determination of the Committee on this point were that the leases should not be too short, for the reasons stated before; nor too long, lest the farmer should acquire an influence so great in his lands as to injure the rights or authority of his successor, or lest the knowledge of their value should be confined to the person in possession, and lost to others. The Committe felt that a longer term than six years might be liable to these objections, as a shorter term than three would not answer the ends it had in view. "There are," it continued, "no valid reasons for assigning a preference to any one particular term of years above another within these extremes of 3 and 6, since the causes which might operate in favour of any period for one place, from the consideration of the soil, crops, or any other local accidents, would not hold good in others." It was of opinion, however, that, for the sake of regularity, and for facilitating the course of business, the same term of years, and the same period for their commencement, should be fixed for all the farms throughout the Province, and that, where the lands were already in farm, the leases should be extended, so that all the leases of the province might 'fall at one time.'

Secondly, the Committee resolved that farms should consist of entire Purgunnahs, provided that they did not 'exceed the annual amount of one lack of rupees.' In the latter case they should be divided into such equal proportions as would reduce the amount of each considerably below that sum, unless the acknowledged responsibility and good character of the farmer

should support his pretensions to rent the whole Purgunnah. The object of this resolution was to free the accounts of the revenue from intricacy, to prevent disputes amongst farmers, and to guard against the risk of losses by their negligence or embezzlements.

Thirdly, it was resolved that a smaller Committee should be constituted from amongst the members of the Controlling Committee " to go on a circuit through the Province, and to form the Bundibust or settlement at the Sudder Cutcherry of each district." Accordingly, a Committee, known as the Committee of Circuit, was formed by another resolution. It was to consist of the President (the Hon'ble Mr. Warren Hastings) and four other Members, namely, Messrs Samual Middleton, Philip Milner Dacres, James Lawrell, and John Graham. The Committee of Circuit was instituted with a view to studying by local inspection the peculiarities and usages of each district and the condition of its lands as these things could not be " known with any degree of certainty by remote observations, or the interested and superficial scrutinies of the natives." Moreover, it was felt that if a part of the Administration were on the spot, they would run " less hazard of being deceived in intelligence or disappointed in their investigations " and they would be ' better able to hear and redress any grievances which the inhabitants might prefer to them, and to form such particular regulations as might be necessary for the exigencies of each district, or even to superadd others to those, which would be generally and previously resolved on.'

Fourthly, it was decided that the settlement of the districts of Hughly, Hedgelee, Calcutta Purgunnahs, Burdwan, Midnapore, Beerbhoom, Bissenpore, and Pacheat, should be made by the remaining members of the Controlling Committee. The reasons for excluding these districts from a local inspection were ' their proximity to Calcutta, the unimportance of the few which were distant from it, and the want of time to include the whole in the same mode of settlement."

Fifthly, it was agreed that, as the Company had determined to stand forth as the Diwan, its servants employed in the management of collections should henceforward be styled " Collectors," instead of the then appellation of " Supervisors." It was argued that, as the business of the gentlemen stationed in the districts was solely to superintend and collect the revenue, they should, in the fitness of things, be styled Collectors. The Controlling Committee felt that so much depended on the just application of

names that it would urge this alteration with a thorough conviction both of its utility and necessity.[15]

Sixthly, it was resolved that a Diwan should be appointed by the Controlling Committee, for each district. He " shall be joined with the Collector in the superintendency of the revenues " and " shall keep separate accounts of the collections, according to the established forms of the country, countersign all orders circulated in the Mofussel, all receipts granted to the farmers, and all invoices and accounts transmitted to the Sudder." The object of this resolution was to provide for a check on the Collector. It was also argued that the appointment of Diwans would be a certain means of counteracting that improper influence which the Banyans of Collectors were ever eager to assume in the management of their employ, and would provide against the loss of rents and confusion of accounts which the frequent removals of collectors would otherwise unavoidably occasion. It was intended that the Diwans would be fixed to their offices, and thus be able to keep business always in train, notwithstanding any changes which might take place in their districts.

Seventhly, it was laid down that neither the Collector nor his Diwan should send Seapoys, Peons or any other persons with authority, into the lands belonging to the farmers, except on such occasions as would indispensably require it for the maintenance of the peace or the immediate execution of justice, and except when the authority of the farmer would prove insufficient. On these occasions, a warrant under the public seal, duly signed by the Collector, was to be given in writing to the Officer employed. And it was to be recorded in the judicial proceedings with the reasons for the issuing of it. It was further laid down that no person should be summoned on ordinary occasions except by a Tullub Chitty to the farmer, requiring him to produce the person summoned within a certain period of time. This regulation was intended to be the greatest security for the farmer's rights and privileges.

Eighthly, having thus provided for the due and unmolested exercise of the farmer's authority, the Controlling Committee took into consideration the rights of those who would be subject to it. It then laid down, with a view to freeing the Ryot from undue exactions, that the farmer must not receive larger rents from the Ryot than the amount stipulated in his Puttah,[16] on any

15 Perhaps the origin of the name of Collector as applied to the District Officer, is to be traced to this resolution.

16 *I.e.* lease.

pretence whatsoever; that, for every instance of such extortion, the farmer must, on conviction, be compelled to pay back the sum which he might have so taken from the Ryot, in addition to a penalty, equal to the same amount, to be paid to the Sircar; and that for a repetition of such an act or for a notorious instance of this oppression on his Ryots, his lease must be annulled. The Collectors were required to see that this regulation was duly observed.

In the ninth place, it was resolved that the amounts payable by farmers to the Government should be duly "ascertained and established," and that no demand should be made upon them above what would be stated in the rent-roll delivered to them along with their lease.

It was hoped by the Committee that this provision would necessarily prove a great encouragement to the farmer who would be under no necessity to conceal the profits of his farm, nor be compelled to rack his tenants for securing the means of purchasing an exemption from further claims on the part of the Muttasiddees[17] and officers of the Government. Moreover, the Committee felt that if the long term of his lease was also intended to act as an inducement to the farmer to improve his lands, the inducement would disappear if the fruits of his labour and the returns for his investments were not guaranteed to him, or if he were liable to fresh demands upon him as often as the Government or the Collector would consider that the improved state of his lands could afford this. But if the faith of the Government were once definitely pledged, it would be a source of ease to the farmer, and might add to the increase of cultivation and revenue.

Tenthly, it was resolved that no Mhatoots (Mathutes) or assessments, under the name of Mangun, Baurie Gundee, Sood, or any other Abwab or tax, should be imposed upon the Ryots; and that those Abwabs which had been recently established, should be carefully scrutinized, and, at the discretion of the Committee of Circuit, abolished if they were found to be oppressive and pernicious.

This was a very important resolution. Its object was to give relief both to the farmer and the Ryot. "It has been," says the Controlling Committee, "the constant practice of the Mogul Government, on the slightest pretence, to authorize the exaction of new taxes from the Zemindars and farmers. In this impolitic conduct the view of remote consequences was lost in the tempta-

17 I.e. clerks.

tion of instant gain. The principals, thus taxed, having a fair pretext to indemnify themselves by an assessment of the tenants, have never failed to extort from them a much greater amount than they themselves have been obliged to pay; every dependent agent of the collections endeavours on such occasions to get his share also of the general embezzlement, by which the poor Ryot is disheartened, and often disabled from attending to the culture of his lands, which requires money as well as labour to bring it to perfection. When the husbandman knows exactly what he has to pay, and is sure of being left in the undisturbed possession of that superfluity which his industry can acquire he will cheerfully apply himself to the tillage and improvement of his lands. No man will labour who is denied a share in the fruits of his labour."

In the eleventh place, all Nazzars and Salamies, which were usually presented at the first interview as marks of subjection and respect, were ordered to be totally discontinued, as well to the superior servants of the Company and the Collectors, as to the Zemindars, farmers and other officers.

These trivial presents would in themselves be undeserving of notice but for the fact that the practice ran 'through every degree of subordination,' and became a weighty grievance. These presents like the other levies, referred to above, on the principals were reclaimed with accumulated extortion on the Ryots, who were taxed as often as the Zemindar or the farmer had occasion "to perform these expensive and ostentatious acts of duty."

In regard to the ancient institution of the Chakaran lands which were allotted to some of the inhabitants, whose office it was to preserve the peace of the country and to guard it against common robbers, the Controlling Committee resolved, with a view to enabling the Committee of Circuit to fix the necessary establishments in each district for its safeguard and protection and for the maintenance of its peace and tranquillity, that the Collector of each district should prepare and have in readiness accurate accounts of the Chakaran lands in his district together with a detail of the purposes for which they had been allotted.

Finally, the Controlling Committee directed the substance of these resolutions to be published in each district in the Bengali and the Persian language and also ordered advertisements to be issued inviting sealed proposals from those persons who were willing to take farms. These proposals were to be delivered in at the Sudder Cutchery of each district by the 10th and the 15th of June, 1772, in the case of the districts of Nuddea

and Jessore respectively, and by the 10th of July, 1772, in the case of other districts.

I may add that the Controlling Committee also passed three additional Regulations, rather of minor importance, at its meeting held at Fort William on the 28th of May, 1772.

This brings to a close another chapter in the history of the land revenue system in Bengal in the early days of British rule.

RURAL RECONSTRUCTION IN INDIA

BY

PROF. V. G. KALE

Poona.

Sporadic, partial and fitful efforts have been made, for years, to bring about an improvement in the economic and social condition of India's rural population. Taken by itself, each one of these efforts was valuable, but the problem of rural development was not envisaged as a whole and it was a case of inability to see the wood for the trees. An excellent summary of the enquiries made by committees and commissions that have tackled different aspects of the rural problem and the action taken on their recommendations, is available in the report of the Royal Commission on Agriculture in India. That Commission realised and laid special stress on the necessity of an all-round improvement in the condition of the agriculturist and of the countryside. It observes that " the improvement of village life in all directions assumes at once a new importance as the first and essential step in a comprehensive policy designed to promote the prosperity of the whole population and to enhance the national income at the source." It goes on to say that " the demand for a better life can, in our opinion, be stimulated only by a deliberate and concerted effort to improve the general conditions of the countryside, and we have no hesitation in affirming that the responsibility for initiating the steps required to effect this improvement rests with Government."

The problem is, however, so vast that the men, the money and the organisation required to handle it, have been extremely difficult to get together. Conditions in the provinces vary and some have gone further than others in attempting to organise work for the uplift of villages. Provincial governments have been trying through the Agricultural, Health and Co-operative Departments to carry on propaganda and some constructive work in the direction of improving the economic and social conditions in selected villages and tracts. Political exigencies have recently

stimulated these activities and the desire to educate the voter is responsible for a good deal of the enthusiasm evinced in the matter of village improvement. The Government of India's grant of a crore and odd has also gone a long way in encouraging governments of provinces in formulating and attempting to carry out schemes of rural improvement. The movement goes by various names and of them " Rural Reconstruction " is the most ambitious. It probably connotes an ideal to be attained in the course of years and to be attempted by a variety of agencies and means. The alternative nomenclature, " village improvement," would mean the bettering of the life in the village through the provision of amenities, such as roads, education, sanitation, healthy amusements and so on. " Village uplift " indicates the utterly decadent state of the country-side and a concerted effort to raise the standard of living of the rural folk. The disparity between the town and the country, which is as old as history, has grown extremely wide in recent times, and we are apt to apply modern standards of life to the task of improving our villages. This is as it should be but it adds enormously to the difficulty of solving our problem.

The movement for rural reconstruction assumes that the ancient Indian village organisation has gone to pieces owing to the impact of modern civilisation and needs complete overhauling. The corporate organisation of village in India has been or is being dissolved, their old methods of industry and trade have become out of date and the ideas and the ways of living of the rural poulation are remote from the requirements of the modern age. How to renovate and overhaul this decadent system peculiar to lakhs of villages and crores of the population is a thought that may well stagger the imagination and damp the ardour of the reformer. Improvement to be real and durable, will have to receive its inspiration and its stimulus from within and measures of reform imposed from above and oustide, are bound to prove futile. The printed word, which is a potent means of propaganda and education among the masses, cannot be expected to penetrate the gloom of illiteracy which broods over the whole countryside and we have to rely very largely on the spoken word and perhaps on the radio and the talkies. The agency employed to achieve the colossal task consists of handfuls of workers, official and non-official, carrying on their activities in collaboration or separately, and resources are made up partly of funds contributed by government, provinçial and local, and partly of public subscriptions and contributions.

The methods adopted to attack the stupendous problem are

either intensive or extensive. Villages in different parts of a province are selected for the experiment and an endeavour is made to cover the whole life of the people. A panchayat is established to do on a small scale in the village what a municipality does in a town. A better living co-operative society is often very useful for the purpose and the people are thus organised to look after their common affairs. Inculcation of thrift, supply of regulated credit, the introduction of improved agricultural crops and methods, the supply of pure water, sanitation are all expected to be looked after in such an organisation. In the villages selected, a school may be started, medicines may be provided, demonstrations to show improved ways of living may be held and the outlook of the people on life may be widened. It is yet too early to pronounce judgment on the outcome of the experiments, but there is a feeling, based on practical experience, that the effect of the work done under the guidance and influence of outsiders is often temporary and does not leave a permanent impress on the life of the villagers who soon relapse into their old unorganised state. Unless the desire for improved conditions of life becomes spontaneous and innate, village uplift work will remain a show organised by outsiders, to end in nothing when these people withdraw. As it is expected that the good influence of the model villages will radiate to other places, the permanence of the improvements is a factor of great moment. The question of funds as well as of selfless and benevolent leaders is of paramount importance in this connection. In villages blessed with money crops or commanding other sources of income, supplementary to what is yielded by agriculture, the question of the finance of improvements, such as a dispensary, a school and a play-ground, will present no difficulty since some of these will be inexpensive. But at least the initial cost of the others will have to come from outside.

The extensive method is followed where improvements can be spread over a large area. The introduction of new seeds and manures and implements, the adoption of improved methods of cultivation, finance and marketing of crops and the breeding of better types of cattle, are measures calculated to put more money into the pockets of village people and to raise their standard of living. Lectures, demonstrations and shows arranged by Government departments are the usual means of propaganda and several tracts in the country have benefited by the introduction of the improvements suggested to the rural people. The soil is uncongenial for village uplift in parts of the country where owing to natural and other causes, there is no prospect of increase

of income, and money stimulus seems to be a powerful force that is calculated to act as an urge to improvement.

But the movement for rural reconstruction in India, on a wide scale has synchronised with the worst economic crisis that the world has ever passed through. This means not only that the unsatisfactory condition of the finances of provincial and local governments has rendered it impossible for them to provide the funds necessary to finance any improvements that may be contemplated but retrenchment and economy have had to become the watchwords in the expenditure of the resources of these bodies. Even the normal outlay on public works, education and other so-called nation-building services has had to be curtailed and the usual grants to local authorities have been severely cut down. The unprecedented fall in the prices of agricultural commodities which has persisted over a period of more than five years, has reduced the already small and inadequate income of the rural population, land values have gone down enormously and indebtedness has increased. The task of the reformer has, therefore, been rendered extremely difficult by this deterioration in the economic situation in the rural areas. The co-operative movement in almost every province has been hit hard by the economic depression and even adequate financing of the seasonal crops is no longer an easy matter. The resources of financing institutions have become frozen, arrears have increased and unwanted lands have to be put up for sale with little demands for the same. The moneylenders, having had their fingers badly burnt, are unwilling to advance money and the credit of the whole countryside appears to be paralised. This is surely not an atmosphere favourable for any substantial achievement in the field of rural uplift. It brings out, in any case, the stupendous character of the problem that has to be dealt with. We see how the one crore and odd placed by the Government of India at the disposal of provincial governments is a mere drop in the ocean in view of the vastness of the task that confronts the reformer. The establishment of land mortgage banks, legislation in favour of conciliation and scaling down of debts and measures for the protection of the debtor classes are steps in the right direction taken in some provinces. But they are meant more to recover lost ground than to cover new ground, and the way to real rural uplift is thus practically barred.

One interesting question that suggests itself here is: " Does rural reconstruction mean the revival of the old type of village life which has been disturbed and disorganised by the impact of modern civilisation or does it mean the adjustment of that social

and economic system to the changed and changing conditions in the country and outside? Improved means of transport and communication and more active trade within the country and with the outside world have upset the old rural economy of India. Old handicrafts and trades have died out or decayed, the pressure of the population on the soil has steadily increased and unemployment or underemployment is becoming very common. Migration to towns of village people on a large scale has become a necessity. To find subsidiary occupation for the cultivating classes is now felt as a crying need and institutions like the All-India Village Industries Association are trying to rehabilitate the old type of rural economy and to revive or rescue from ruin dead or dying occupations of the rural population. While admitting that there is much scope for this kind of useful work, it is a matter for consideration how far, with the growing competition of machine-made goods, manufactured within and without the country and with the rapidly changing needs and tastes of the people, it would be an economic proposition to go against the current of modern social and economic life. Can the ideal of the self-sufficient village be attained to any appreciable extent and is it economically worth while pursuing it? But if an attempt to find new avenues of employment for the rural population is not found in the villages themselves, how is that poulation to be saved from starvation and misery? The late Mr. Ranade used to say that India had come to be ruralised and that the rapid establishment of new industries was an urgent need to establish a proper balance between the town and the country and between agriculture and manufacturing industry. This continuous adjustment of the life of the people to changing environment appears to be called for as an effective remedy against the degeneration of rural areas that is going on before our eyes. There is undoubtedly great scope for improvement in the organisation and the technique of agriculture, calculated to increase the income of the village people and to facilitate the bettering of their standard of living. But the question is, can this improvement alone suffice to raise the rural areas to a higher standard of life? With the vast populations that have to be dealt with, this seems to be doubtful.

The object of rural reconstruction, in the words of the Royal Commission on Agriculture, being "the advance of the rural community towards a fuller life" and the means to be employed having to be designed "to awaken the desire in the rural community for better things and to assure each individual member of it against the temptations that beset him without

impairing either his self-interest or his spirit of manly independence," we have to ask ourselves what resources we have at our disposal and can mobilise for the attainment of the object. It will be readily admitted that our resources are meagre and the difficulties to be overcome are enormous. The central, provincial and local Governments will have to co-operate in making the most of such resources and agencies as are available and both the intensive and extensive methods of development will have to be adopted. One dare not expect quick or far-reaching effects owing to the disparity between the vastness of the task and the meagreness of the resources.

A review of the economic situation in the rural areas and of our present activities directed towards the reconstruction of the social and economic structure of the country-side, is calculated to lead one to conclude that all that may be expected from the efforts is a slow process of adjustment of rural life to changing conditions. The whole problem resolves itself into (1) what we regard as the ideal standard of life which it is intended to attain in the rural areas, (2) the agencies, the institutions and the men that can be utilised for the purpose of bringing about the desired change and (3) the funds that are available for carrying on the work of reconstruction. To widen the mental outlook and to rouse the aspirations of the rural population for a better and a fuller life and to increase its income to enable it to attain a higher standard of living, constitute an ideal that cannot be regarded as extravagant. The crux of the problem lies in the utter inadequacy of the means that can be employed to bring about improvement and the lack of proper co-ordination among the agencies that are working in the field of rural uplift. It must be pointed out that unless the central government in this country pursues a fiscal, financial and credit policy that is calculated to promote rapid national economic development, no efforts made by provincial and local government authorities at rural development are likely to bear fruit. Some sort of co-ordination of the activities in the provinces is now being hesitatingly attempted by the central government, but it will have to go much futher in this direction and take positive action if any appreciable impression is to be made on the situation.

The main burden of the work is bound to fall on the governments of the provinces and local authorities. The Agricultural, Co-operative, Educational and other Departments of provincial governments will have to extend their activities, for which adequate finance will have to be found. It will also be essential to stimulate and co-ordinate the efforts of social service and co-

operative institutions. Official agency is bound to prove utterly inadequate to the vast task of rural uplift and the active co-operation of a growing number of voluntary social workers is indispensable. More resources will likewise have to be placed at the disposal of the agencies that will be called upon to carry on the work. There is no short-cut to the goal and no economic revolution is to be expected in the rural areas. Whatever industrail occupations in the villages can be preserved, have to be protected and properly organised and a balance has to be established between rural and urban life. All our resources in men and money will have to be mobilised to attack the gigantic problem of rural regeneration and reorganisation if anything substantial is to be achieved.

CONFERENCE PROCEEDINGS

WELCOME SPEECH

BY

A. F. RAHMAN

Chairman, Reception Committee,
19th Session All-India Economic Conference.

LADIES AND GENTLEMEN,

On behalf of the University of Dacca and as Chairman of the Reception Committee it is my great privilege to offer a cordial welcome to the distinguished delegates and visitors to the 19th session of the Indian Economic Conference which is meeting under the auspices of this University. It is a long way to Dacca from anywhere and we offer grateful thanks to those who have travelled weary distances to grace this function in this ancient city which at one time occupied a position of economic importance. We are conscious of the inadequacy of our arrangements for their reception and comfort, but I hope they will generously forgive our shortcomings and accept our humble hospitality in the spirit in which it is offered.

The Economic Conference occupies a unique position in the public life of India on account of its freedom from party entanglements and its dispassionate search after truth and we are looking forward to stimulating discussions on problems that engage the attention of all who are interested in the welfare of the country. One of the subjects for discussion in this session is Rural Reconstruction and it is fortunate that the Conference is meeting in Bengal at a time when a determined effort is being made to construct the economic life of this Province. Your mature judgments on many aspects of this complicated problem would be invaluable. Two of Bengal's acutest maladies are the indebtedness of the agriculturist and the serious unemployment among the educated youth. We shall look forward anxiously to your suggestions for bringing some measure of relief. At the present moment much of our attention is occupied with the form of government in the very near future but, the success of the new experiment will depend to a great extent on an equitable financial adjustment and a programme that brings economic prosperity. Otherwise despair will breed discontent. Here also the pronouncements of an authoritative body like yours will be eagerly

awaited and we wish you, in advance, success in your momentous deliberations.

It is a matter of sincere gratification that the conference is being opened today by the Hon'ble Minister of Education. He was enjoying a well-earned holiday and he has travelled hundreds of miles in order to be present on this occasiion. We are grateful to him for having so readily accepted our invitation and we are delighted to have him with us because we are aware of his deep and penetrating study of economic problems.

We offer cordial felicitations to the Conference on the choice of its President this year. As a very distinguished Professor of Economics and a forceful Minister of Education Mr. Manohar Lall's name is a household word in educated India. Many eminent economists have been his pupils and perhaps our Minister of Education is one of them. We feel sure that under his able and stimulating guidance the deliberations of the Conference would be conspicuously successful and another glorious chapter will be added to the record of the very real and constructive work that the economic conference is doing. We trust that when your labours have ended you will carry back with you, pleasant recollections of your stay here—at any rate of our humble but earnest efforts to make you comfortable.

I have now very great pleasure in requesting the Hon'ble Minister of Education to declare this conference open.

INAUGURAL ADDRESS

BY

THE HON'BLE MR. M. AZIZUL HUQUE
Minister of Education, Bengal.

Ladies and Gentlemen:

I am deeply grateful to Mr. A. F. Rahman, B.A. (Oxon.), M. L. C., the Vice-Chancellor of the University of Dacca and the Reception Committee for being invited to open the 19th session of the All-India Economic Conference and thus affording me an opportunity of welcoming the many distinguished economists who have come to this province to take part in the deliberations of the conference. I offer also my cordial welcome to your distinguished President, under whom I had the honour of getting my first lessons in Indian Economics as a student of his, about a quarter of a century back. To-day it is no mean honour to me to be able to welcome my old professor whom I still visualise and remember making his rapid survey of Indian Economics in course of four lectures—one of the most brilliant expositions that I ever heard and pardon me, ladies and gentlemen, if even to-day I prefer to call your president-elect in terms of old association as Professor Manohar Lal even though he has since served in other ranks of life with marked credit and ability.

It is in the fitness of things that Dacca should have been selected as a meeting place of this Economic Conference. An ancient historic town renowned even in the 17th century as the "City of great trade," she still bears within her bosom the economic history of centuries past. In no other city probably in this province one will come across the spectacle of the hard struggle of our new economic life, battered remnants of ancient trade, commerce and industry,—with all the worst privations of the transition stage. Here we see the obscured old light though only shining very dimly but shining all the same side by side with all the refulgence of the new light. Coming over the mighty Ganges in a fast steamer with the sun just rising above the horizon with all its glow and colour, one cannot but notice the beautiful panorama of hundreds and thousands of country boats of different shapes and sizes, with sails in the variety of their

colours, but often times tossing on the river as if only to save themselves from the onrush of backwashes of steamers hurrying past. That is the picture of our economic life to-day. The new has come with all the best of its advantages but the old still survives, however humbly, often in struggle with the new, but all the same useful in its own way in the economic life of the people.

I welcome the presence of distinguished economists here for I feel that possibly in no other province there is such greater need for guidance from economists and thinkers than in this province of ours. For years past we have been living under the burden of great financial stringency. On this economic situation was superimposed a crisis which resulted almost in a collapse of prices of agricultural commodities along with other troubles in the process of structural changes of our economic life. Agriculture is the mainstay of our province and our people—partly no doubt by habits and temparament and effects of climatic conditions and partly because of the peculiar history and past of this province have not yet taken very largely to industries, trade and commerce. So long, therefore, agricultural prices did not crumble, so long paddy and jute—our basic produces—fetched good prices, so long the tax-payer was not in conditions of impoverishment, the pinch was not actually or acutely felt. But during at least the last five years we have passed through an unprecedented economic crisis. The debtors had no surplus credit to offer, the creditor could not get his just dues, the tenant could not even get enough to keep body and soul together; there was shrinkage of money and credit; there was reduction of wages below the economic level; the industries that we have were on the brink of ruin, trade was at its lowest ebb and unemployment was looking on us stark all over the province. To-day there have been some visible genuine signs of convalescence and features of recovery and readjustment are beginning to appear, even though some parts of this province are still threatened with acute distress owing to absence of timely rainfall according to seasonal needs. At no time is therefore such a great need for advice and guidance from distinguished economists, financiers and bankers than in this juncture of our economic position.

Among the subjects which you have selected for discussion during this Conference there are three at least which are of considerable interest as well to the student of Economics as to a practical man of life. In a country, the most striking feature of the economic life of which is the overwhelming importance of agriculture as compared with other kinds of industry, the

discussion of the question of land tenures, whether studied historically or in reference to modern conditions, is bound to appeal to all. I sincerely hope that your deliberations on this question would be such as would enable all interested in it, to receive correct guidance. Indeed, I feel that such intricate and perplexing questions, namely, whether the settlement of land revenue in this country should be temporary or permanent, or whether there should be state ownership or individual ownership or joint ownership of lands, or again, what should be the respective shares in the produce of the soil, of the State, the landlord and the cultivator, can be satisfactorily solved by economists like yourselves who, by their disciplined and prolonged study of every aspect of such questions, can take a more scientific and dispassionate view of things.

No less important is another subject selected for discussion this year—I mean the subject of 'Economic and Financial Aspects of the new Indian Constitution.' Here again, you, the economists can bring to bear upon the discussion of various economic and financial implications of the new Constitution your passionless reason and deep knowledge of things elsewhere, and give our countrymen who are often confused by contradictory views, a correct lead on the economic side of the new Constitution. In particular, you may in this connexion suggest, without being influenced by any narrow provincialism—and I know that as students of Economics you are far above it—some satisfactory solutions of the problems for solving which Sir Otto Niemeyer is shortly coming to India. As His Excellency the Governor of Bengal rightly said at the last St. Andrew's dinner at Calcutta, 'for this Province, as no doubt for others, the issues are momentous.' We in Bengal are specially interested in them as we have been very hard hit by what is popularly known as the Meston Award. We should like to be assured, to quote His Excellency again, of a total revenue sufficient to enable this autonomous province of the future "to maintain a standard of administration reasonably adequate both in itself and in relation to the standards attainable in other comparable provinces." I, therefore, sincerely hope and trust that your deliberations on this matter will help the solution of such vexed questions as subventious to be granted to new and deficit provinces; the percentages of the income-tax to be retained by the Centre and the provinces; the allocation of the export duty on jute to the jute-producing units; or the problem of contributions by the States—our new partners in the future Government of India—to the exchequer of the Federal Government.

The subject which you have very wisely selected as the current topic for this year's discussion is of a very great practical importance. In a country in which there are over 685 thousands of villages and in which only 11 per cent of the total population has been censused as urban, the question of rural reconstruction cannot fail to be of absorbing interest to all. There are so many problems affecting our rural areas, which have to be successfully tackled if our country is to be saved. For instance, economic wastage due to preventable diseases cannot, as the Royal Commission on Agriculture in India rightly pointed out, be over-exaggerated. It is you to whom we look forward for advice and suggestion as to how it is possible for the Government to find money for providing adequate facilities and public health amenities in such a vast and populous country as ours. It is you again who can show by your researches how far the question of physical inefficiency and ill-health among the masses of India is bound up with the question of malnutrition. We also look forward to you to show how it is possible for the State to find ways and means whereby it can banish the illiteracy from the country, which presents the most formidable single obstacle to the operation of any scheme of rural reconstruction in it. You can also point out to us how far it is possible to relieve the pressure of population on the land by a well-conceived scheme of emigration abroad, and how far it is possible to diminish the crushing burden of rural indebtedness by legislation or otherwise. Lastly, I feel with the Royal Commission on Agriculture that no lasting improvement in the standard of living of the great mass of the population in this country can possibly be attained if every enhancement in the purchasing power of the cultivator is to be followed by a proportionate increase in its population. As a layman, it is not for me to say whether India has become over-populated or not in relation to its food-supply, or whether its population is fast outstripping its production. Here also you alone are competent both to diagnose the disease and to suggest proper remedies.

These are, ladies and gentlemen, some of the points which strike me in connexion with the question of rural reconstruction in this country. We in Bengal are trying to ameliorate the condition of our rural people with the help of such measures as the Bengal (Rural) Primary Education Act, 1930, the Bengal State Aid to Industries Act, 1931, the Bengal Money-Lenders Act, 1933, the Bengal Development Act, 1935, and the Agricultural Debtors' Bill, 1935. Nevertheless, I fervently hope that your deliberations on the question of rural reconstruction in India will

give us newer light and be really productive of lasting benefit to our Motherland.

There is one aspect more which I wish to refer to. I trust that your presence in this province will inspire our students of the two Universities of Bengal in studying the various economic problems of this province and of this country. So much has to be done in the way of studies of economic facts and statistics and so little has been done that there is scope for every talent to exercise all his zeal and devotion in different aspects of the problems around us. I hope under your guidance and inspiration, a school of economic workers will grow up among students who will devote themselves to careful studies of economic life of the people. Speaking for this province, there is a variety of problems requiring diligent studies and investigation.

Take one problem alone. We in Bengal have to depend upon seasonal rainfall and unless there is timely rainfall, our main crops, jute and paddy fail. Yet there are provinces in India where there is practically little or nothing of rainfall, deserts, sandy tracts have been turned into smiling plains owing to the system of irrigation prevailing in those parts. If there is any economist who might carefully study the sub-soil level of water, nature of soil, requirements of crops and will be able to guide our people to take in more and more to irrigation, Bengal will be a more prosperous province than what she is to-day. But there are other problems. The effect of rainfall and the nature of crops, the division into economic zones for crops, housing problems in labour areas, effect of modernization on agriculture, occupations and openings, incidence of rent and cess, problems of finance and revenue, wages and prices, problem of distribution and marketing, incomes and incidence of local, provincial and imperial taxation, credit organisations and credit problems, family budget—apart from high Imperial questions like that of Tariff, Exchange, currency or railway rates—these among others form a wide range of subjects for studies for all and it will be of immense benefit to this province if your deliberations will help our students in studying these features in the problem of rural reconstruction.

I regret however that I have not been able to do justice either to my subject or to my audience. My only excuse is this that since the 13th of the last month I have been constantly touring and by the time I go back to Calcutta from tour, I shall have travelled over 5000 miles by railway trains and over 500 miles in motor car. I have traversed the sandy plains of Rajputana and Sindh and the Punjab on one side and the fertile belt of the Gangetic

plain on the other. I have viewed the barren rocks and wide stretches of sands relieved only by " Babuls " and " Jhaus " and have also seen the fertile colonies of Lyallpur and Montgomery, each of which it is said gives Government a revenue of about a crore of rupees and even over. I have passed over the entire tract of country swept on one side by the mighty currents of the Indus and on the other the lands constantly alluviated and diluviated by the Padma, Brahmaputra and the Ganges. I have seen the ancient Indus civilization in its ruins at Mohen-jo-dero and Harappa and have also seen in Ahmedabad and Baroda the mighty wheels moving in roaring speed and drawing out of raw cotton finest threads and then weaving finest textiles. But throughout I have not failed to be profitted, among others, by the varying features of economic life of the different provinces which even in their varieties require your lead and guidance and study.

Once again before concluding I offer you all our cordial welcome, and I congratulate you on the choice of your President this year. A distinguished economist of India, Professor Monohar Lal is also a man of affairs and is in touch with world conditions and developments. As the first Minto Professor of Economics in the University of Calcutta and as Minister of the Government of the Punjab, his services to the country have been of great value. And I have no doubt in my mind that under the very able and wise guidance of this eminent economist you will have a most fruitful, and at the same time, a most enjoyable Conference this year.

PRESIDENTIAL ADDRESS

BY

MANOHAR LAL, M.A., Bar-at-Law,

Lahore.

Ladies and Gentlemen,

I much appreciate the honour you have done me in asking me to this chair to-day. I possess no claim to occupy a place in the long roll of distinguished economists who have sat here before—great teachers who by their research and writing have justly won high recognition for Indian economic thought, unerring pioneers who have laid broad and true foundations for the scientific study of our economic welfare. Yet I accepted your offer readily because I knew that I would be among friends—some of them, particularly here in Bengal, old pupils who have earned an unquestioned title as economists, and I felt sure that I would meet with kindly indulgence and consideration in the discharge of my duties.

I have been a close and admiring student of the happily growing volume of work of our young economists and have watched with pride the development of various lines of investigation in so many academic centres in India. I come, therefore, in your midst equipped at any rate as one who has cultivated familiarity with your work, and as one who yields to no one in his good wishes for your success.

In the world to-day economic problems are of such growing imperiousness, and the situation for our great and unhappy, because divided and poor, country so grave that I venture to press on your attention a few reflexions on the task of the economist in India.

The Great War has left as its main legacy serious economic confusion. Striking changes have taken place since in the political field,—far-reaching rearrangements of the political map of Europe, and heavy breakdowns in the democratic forms of government and the establishment of dictatorships. The European system stands transformed as a direct consequence of the War. And in the new Europe, acute suspicions and keen rivalries prevail, with their interminable manifestation in efforts at alliances, unreal talks of disarmaments and not always disinterest-

ed appeals to the League principles. The Peace Treaty imposed territorial restraints under which more than one great European country chafes bitterly, and the danger of armed struggle between nations is intensified. Such a position naturally has had grave reactions in the world outside Europe. But striking as these political changes have been, those in the economic field are of even greater moment. Economic forces that were already in operation since the closing decades of the nineteenth century, acquired in the post-war world an unprecedented intensity. The economic history of the last quarter of the nineteenth century witnessed a gigantic effort on the part of Europe to develop into a workshop for the world. Europe definitely formulated as her policy so to equip herself industrially as to supply the needs of the whole world, and in this endeavour achieved very substantial success. But before the century was over the British dominions, the United States of America and South America had shaken themselves almost completely free from industrial dependence on Europe; and in several parts of Asia the desire to acquire similar freedom was becoming daily more pronounced and keen. In particular, England was steadily losing her industrial leadership and her strength came to be restricted to finance and transport.

But the War saw the end of Europe's commercial supremacy. In America and the dominions it entirely disappeared and in the Far East it suffered serious damage. In India also, one of the biggest markets for European and particularly British goods, the necessities of the War and the introduction of the principle of protection thereafter, a certain measure of industrialization was firmly established.

Europe, then, as surveyed by a wellknown French writer in a recent work, still possesses the machinery and equipment for industrial production, but has lost its markets. Largely increased efficiency in the means of production and shrunken markets, that is the tragedy of economic post-war Europe. And it is this stern fact that explains the uncompromising "nationalism" of European countries to-day: while economists argue, though with no unanimity, that obstacles to trade between nations must be removed, if any lasting and real escape is to be secured from present depression, international trade shrinks because home markets have to be secured at any cost. The separatist nationalist forces are at the moment supreme, though the obvious thought cannot be put away that by hard isolation nations cannot thrive. Jealousies, fear of immediate difficulties, uncertainties of trustful cooperation govern action, and these are undoubtedly intensified

by the fact that the Peace Treaty has placed special hindrances in the way of countries without adequate colonial power. The brilliant French social thinker Siegfried, to whom reference has been made diagnoses the broad features of the crisis of 1929 and since, in this significant manner: " First there was the liquidation of the war, which, contrary to the general illusion, had not been already fully carried out. The main difficulty was to absorb an overexpanded industrial equipment. While Europe was fighting, the rest of the world feverishly equipped itself in order to supply the needs of the belligerents and to cope with their withdrawal from the international markets. After the War, however, Europe in turn wished to recapture what she had lost." And we are now watching Europe's intense struggle—made harder by tariff barriers, and currency confusion. In Japan, low wages exist with remarkable superiority of technique and that makes it all but impossible for the West to compete. The present conditions of world competition are frankly recognised by many in Europe as marks of defeat. A general depression has spread over the face of Europe and no sure indications of escape are visible. Admirable and certain diagnoses of the causes of economic disablement have been made in works of high authority and unquestioned disinterestedness but no trustworthy feasible cure is anywhere suggested because political conditions—the strains and stresses of the present European state system—make deliberate and concerted action extremely difficult.

Many fertile minds have been busy attempting to find a solution: facts have been examined and analysed, a mass of fresh theory constructed where wide differences exist among leading exponents, and on fact and theory there has been founded a perplexing variety of remedies for the undoubted prevailing evil. Differences have assumed such shape that economic theory appears to speak with less certainty and greater disharmony than ever before; this at least in part is due to the fact that even orthodox and accredited academic teachers have been led not infrequently to attempt justifications of plans favoured and pursued by their particular countries. In particular the theory of money, at all times difficult because of its abstract character, has suffered so much controversial restatement, and such finespun and artificial development in a bewildering multiplicity of forms that it is now wellnigh the despair of all except perhaps a few gifted and pains-taking teachers, and research scholars elaborating specialised theses. Marshall once said: " I am never weary of preaching in the wilderness ' The only very important thing to be said about currency is that it is not nearly as important as

it looks.' " It was indeed a cry in the wilderness for genuine fear now exists that monetary theory appears likely soon to swallow up the general theory of value, so great and insistent has been the emphasis placed on monetary explanations of the economic crisis. A whole school of economic thought has arisen who emphasize the monetary view and seek the cause of the depression mainly, if not entirely, in the serious disorganization of the currency systems of the world after the War, and point out how these systems were unable to bear the severe strain resulting from the financial difficulties which prevailed during the years immediately succeeding the peace. Changes in the relative position of London, New York and Paris as financial markets—the loss by London of her controlling influence on short term capital movements, the firmly established influence of New York by 1927-28, and the increasing strength of Paris further lent support to these considerations. The accumulations of central gold reserves in the United States of America and France—which received in two years and a half between January, 1929 and the end of July, 1931 most of the additional monetary gold becoming available from the mines or from other sources, helped to rivet attention on the money factor. The effect of this unprecedented absorption of gold, the money basis of the world, by two countries, unaccustomed to keep the flow of capital intact and inclined if anything to hoard, was of the gravest character. The story of the " maldistribution of gold "—how a few countries (the United States of America, France, Switzerland, Holland and Belgium) had mopped up, by the end of 1931, 71 per cent of the world's gold, and how the absorption of gold by two of the principal countries has steadily increased since, is a familiar one. Current economic literature, particularly city journals and financial papers, enlarge daily on the effect of these forces on the volume of credit and the terms of credit—the underlying factors determining the course and extent of trade and industry. Changes in the debtor and the creditor situation in the world are emphasized and the circumstances which have prevented proper balance of trade under the new conditions indicated, and note is taken of the harmfulness of borrowing and lending on a short-term basis, when only long-period credits could help in making trade adjustments possible.

In the study of the depression, a more constructive school of thought has emphasized the structural aspects of changing world economy. It is pointed out that " the War and the subsequent changes and disturbances profoundly affected the economic structure and activity of the world. In Europe wealth

was destroyed on an unprecedented scale, and plant in excess of normal requirements was built in a number of industries to meet the special needs of warfare.

"In other continents the area under cultivation of the principal food crops was rapidly increased, new industries were built up by countries which were formerly markets for European products. Free intercourse became increasingly subject to restrictions."[1] As a result of the extraordinary advance in industrial technique after 1925, the world's productive and industrial activities increased rapidly. Large changes in speed and spread have been brought about. The breadth and scale and tempo of recent developments endow them with special importance. Production per man hour as it is called, has risen to new heights. But this progress was not easy or uniform and complete readjustment of production and trade to changing demand was not attained. The authors of the League of Nations' book on Depression point out that "these structural changes and maladjustments exercised a double influence. They created an unstable situation likely to be easily upset when attacked by outside disturbing forces, secondly the changes in the basic elements of the economic structure which had begun at this time continued and thus made necessary its further fundamental readjustment."[2] It was inevitable that "some of the existing evils tended in the following years to become more pronounced."

In such world conditions our eyes turn with natural anxiety to the governing factors in our own Indian economy. We have not escaped from sharing fully in the evil effects of the world-wide depression, and the essential weakness of our position has become acutely apparent because of our inability to withstand the strain of the crisis. Our excessive dependence on agriculture, and our poor industrial development caused deplorable distress, and our exiguous finances made any of the usual escapes from economic hardship extremely difficult. The people and the Government were equally helpless. It may be confidently asserted that in no country in the world, certainly in no large country, has governmental endeavour to remedy depression and secure recovery been so utterly non-existent as in India,—for small efforts at improvement in our agricultural departments, and the grant of discriminating protection to some industries

1 The Course and Phases of the World Economic Depression. Geneva.

2 Ib. p. 38.

constitute no part of any special programme to beat down the swelling tide of depression.

Now it is well recognised that world agricultural prices have been low in comparison with the expenditure which the farmer must meet. In spite of the great technical progress achieved, I am speaking of the Western countries, for in India, the room for technical progress is extremely restricted, operating costs remain implacably higher than selling prices. This disproportion between the income and expenditure of agricultural undertaking constitutes the dominant and decisive[3] element of the prevailing agricultural depression for which experts predict a long period of duration resting as it does on a universal disturbance of balance between production and consumption. Technical processes of agriculture have been literally revolutionized; there has been a large and increasing substitution of machinery for human and animal labour, an intensive use of artificial fertilisers; large changes have been effected in the methods of agriculture; and immense improvements made in the selection of prolific seeds.[4]

The bearing of these factors on Indian agriculture are obvious. Agricultural forces are determined by world conditions under the influence of these important prices; and these world-determined prices have to be accepted by us here where holdings are small and uneconomic and conditions of production necessarily primitive. Our dependence on agriculture is increasing, and in the exchange of our agricultural products against the world's industrial products and transport services, our disadvantage as that of all agricultural countries is growing.[5] This constitutes a grave and fundamental problem of Indian economics to-day. The great tragedy of our deteriorating economic position is our utter helplessness. We cannot offer any solution of the vast and universal problem of agricultural depression, for no one country or people can furnish any effective remedy where the causes of the evil are so wide-spread and deep-seated; but

3 The Agricultural Crisis. Vol. I (Geneva).

4 See for an accurate summary an article in the November issue of *Giornale Degli Economisti* on "Agriculture under systems of regulated economy" by G. Acerbo.

5 A striking case is that of New Zealand. Her agricultural exports in 1932 as compared with 1928 stood 18 per cent. higher. But after making certain allowances, the country received 34 per cent. less in imports. This was the result largely of growing unfavourableness in the terms of exchange, and the need of meeting fixed external obligations.

we seem not to be doing anything even towards any long-sighted relief of our own troubles.

Prof. Brij Narain in his recent book *India Before the Crisis* in his study of our population problem has pointed out that "the problem of relieving the growing pressure on the soil is *insoluble*," for "the modernisation of Indian agriculture is impossible unless it is preceded by a very great development of industries." That is obvious enough, but it may be doubted whether even if large development of industries could be achieved, a remote ideal towards which no substantial progress is being made, there would be much room for modernisation of agriculture with our small and fragmented holdings and system of land ownership. India must either restrict her population, or import food from abroad. Our increase of population during the last census decade was described by Dr. Hutton, the Census Commissioner as "a cause of alarm." It has been often said by sober statisticians in official documents that "for all practical purposes, it may be taken as proved that India as a whole is already overpopulated." Major-General Megaw, a most cautious and competent authority, in calling attention recently to the fact of our extremely low average duration of life in India and our low level of health and comfort observed: "There is some difference of opinion as to whether conditions of life have improved or deteriorated during the past fifty years, but even if some slight improvement may have taken place, the existing state of affairs is still so *profoundly unsatisfactory* that it demands investigation and redress," and uttered the warning that forecast for the future is even more disquieting; there is "a prospect of a *steady deterioration* in the nutrition of the people."

Now it may be argued that overpopulation is a relative term, and that it refers to the system of economy as established at any particular time. Change the economy, and the threat of overpopulation disappears. But we must look to the existing circumstances, and what is in near prospect having regard to existing facts and likely changes. In this view, we are liable to all the nature's violent modes of restoring balance. For restriction by foresight is a remote, far too remote, means of relief, for a people steeped in ignorance and superstition. And apart from the danger of restriction proving dysgenic, the scope of its application seems to lie more in the relief possibly of middle class difficulties than in furnishing a solution of our national economic difficulties.

The problem of population is not merely one of there being not enough to go round. It implies also all the misery and

economic waste involved in futile child birth and infant and maternal mortality. And we cannot afford this waste. Final conclusions are difficult to propound. Theoretical speculations furnish no guidance for exact immediate prophecies but here in India there appears little doubt that (*i*) nature has to establish equilibrium by her painful and violent methods of disease, famine and pestilence, and (*ii*) man does the same by accepting a low level of life, even if we may not say that the level is being steadily depressed. In this connexion, the words of Professors Bowley and Robertson are most significant. " Evidence seems to be that population tends to grow up to improvements effected in environment so as to bring the standard of life again down to the old level." " Improvements in public health also result in increased population pressure for the future." What a sad conclusion! In our poverty and the extreme pressure of population on the soil, even the beneficent activities of a human department are not an unmixed blessing. The professors on a broad view conclude that the population problem is the gravest of India's problems. They favour the view that " in India at all events the population problem is still a problem of wringing sufficient subsistence from the soil, while in any case rapid industrialization might stimulate a greater growth of population than it could absorb," and the supreme question disengages itself " whether economic or social forces making for a reasonable balance between population and production are working with sufficient strength."

In New Zealand, the evil is fully realised in an official publication where the necessity of diverting some of her population to new local industries is stressed, and barring the imports of all articles she can produce at home advocated.

In Japan, in spite of all the difficulties of industrialization in a country with no iron, no cotton and poor coal supplies, the policy is clearly defined, and it is recognized that the building up of trade and industry alone can furnish a solution of the population problem. She has learnt a sure lesson from the classical example of England that increasing population needs securing food from outside in exchange for the products of industry and transport and financial services. And Japan's example furnishes us a lesson.

In this connexion we should not forget one important fact. It is obvious that our trade policy is easily summed up in three words: a certain measure of Discriminating Protection, the Fiscal Autonomy Convention, the Ottawa Pact and its implications; and the question of forging a bold and comprehensive trade policy

of building up industries has never been faced in India. It has, however, to be admitted that stress of circumstance has led to a significant change in the policy of the Indian Government regarding manufacturing industries. But it has been boldly asserted by a careful economist[6] that "the industrial development of India is proceeding on wrong lines" in so much as "we have almost entirely neglected the manufacture of capital goods." And he has called attention to a matter that deserves particular reflection and close study. He says: "Under the existing system, the proportion of the population dependant on industry tends to decline with the progress of factory industries. The introduction of machinery causes unemployment in India while it creates means of employment in other countries."

What is being achieved, if not actually achieved in Japan, should be possible for India. We have an immense population and therefore ready demand for manufactured goods. We have an immense market, a market which the whole world is trying to secure, yet in spite of our unbounded resources we continue hapless victims of world's dumping.

On the vital issue nearly all necessary qualitative thinking has been done, the nature of evil analysed, and the possible remedies defined. But all this can form only a starting point, and the task of the economist is to study in detail the extent of relief in varying circumstances that can result from (*i*) improvements in agriculture, (*ii*) voluntary restriction on the growth of population, (*iii*) increase in industrialization in full view of the situation in the West. These are the three main factors which require close quantitative study under a large number of assumptions of possibilities. Round these would naturally group a considerable mass of subsidiary problems concerned with diet, nutrition, public health and disease. It is gratifying that detailed consideration of this vital problem will now have the advantage of an expert body of students in the newly organized Population Conference to be shortly held at Lucknow.

The approaching reforms have forced pointed attention to the rigidity of our revenues, and the narrowness of our finances, for reforms mean increased expenditure, and our provinces have not even now the means of making proper or adequate provision for beneficent or nation-building activities. Narrow exiguous finance is merely the reflexion of the poverty of the country and of its ill-balanced economic structure. Serious students of Indian economics have recently stressed with growing intensity

6 Prof. Brij Narain: India before the Crisis.

the excessiive nature of our land revenue burden, a main source of provincial income; while even with this burden, and without contemplating any relief in this regard, our provincial Finance Members are in despair as to any fruitful schemes of improving their revenues. The resourcefulness of government experts, individual and in committees, is exhausted in merely canvassing adjustments; hardly a single additional or further source of revenue is suggested, while provincial governments press for a larger share of what the Central Government absorbs at present. The pessimistic tone of experts, and the frantic advocacy of individual provincial claims is a saddening fact—it is the rock on which plans of federation and realities of reform may easily split. No solution is in sight. The Central Government's sources of net income are just threefold: *Customs, Income tax* and *Salt*, and the pitch to which each has been carried in recent years, affords no prospect of substantial improvement in income by any large enhancement of rates.

In this a cynic may, perhaps, see a ray of hope, because as our trade policy underwent a considerable transformation under the necessities of the war, the exigencies of conducting government under reforms may further compel our rulers to think of and devise means to secure healthier economy for India. The limits of revenue from land have been long reached, growing pressure of rural opinion cannot fail to make itself felt in preventing any increase of burden on land, even if it does not succeed in securing reduction of various direct and indirect land revenue charges. All hope of improvement must therefore rest on Customs and Income-tax which depend directly on industry and trade. The development of industry and trade, then, is necessary to keep our finances in balance and absolutely essential if any even urgent programmes of national advance are to be carried out.

In dwelling upon the urgency of the challenge to master poverty, over a hundred and fifty of the leading liberal and progressive thinkers of Britain observe that here " the task has become more manageable now than ever before. Science and invention have so increased our power to produce wealth that poverty in the modern world is becoming an anachronism." And they emphasize in this connexion the need for a comprehensive and thorough-going policy of industrial reorganization. If that be true of Britain, how much more forcefully does it not apply to India. With the passage of years it has become increasingly apparent that the development and control of industry cannot be left entirely for their regulation to the play of profit-seeking

competition, and the duty of the State in playing an active part in securing healthy industrial adjustments is no longer open to question. Of vast and vital importance are also questions relating to business organization in India. We cannot afford the luxury of learning by failures in the hard school of experience. With her poverty, her increasing unemployment, her increasing burden of foreign obligations, her lop-sided economy, India can afford to make no mistakes in ill-advised paths of uncertain experiments. Here a heavy duty is cast on ourselves, of strict attention to efficiency, stringent pursuit of sound finance, and unswerving business honesty. If these are not forthcoming no encouraging trade or industrial policy can be of any avail or assistance in building up a sound economy for India.

Here perhaps I may be permitted to say that in our steadfast gaze on the absolutely necessary ideal of vigorous and healthy modern industry, we ought not to allow our attention to be diverted by fanciful pictures of cottage industries as the solution of our economic ills. The cottage industries may have their legitimate place in our village economy,—on that I wish to say nothing. But they furnish no means of providing thirty-seven crores of people with an adequate standard of living.

Economic planning is understood to-day in many senses. The most common is: so to devise the use of a country's economic forces as to break the downward trend of things and impart an upward push to the economic spiral. The breakdown of purchasing power has to be repaired and effective demand to be built up. These are policies of recovery studied and enunciated in England and the United States of America.

Then, there are general schemes for a country's economic advance such as are formulated and put into practice in Italy.

There are further the more comprehensive and ambitious plans in the U.S.S.R.—a reconstruction of the whole life of the people and of their productive power—revolutionizing the whole system of property and organizing distribution of wealth largely on the principle of equality. These represent radical social experiments which the world is watching with close interest and intense curiosity. The old-world prejudice against socialism has been much shaken, the hesitations and doubts about the activity of the state in the economic field have tended to disappear, but the U.S.S.R. still represents for nearly all other countries an uncertain and startlingly novel experiment.

To us, in India, economic planning must mean something different. It does not signify merely an effort at recovery from present depression, nor a large Marxian or socialist experiment,

but a deliberate endeavour to secure a balanced economy. Much recognition exists in important authoritative government declarations of the imperious need of this balance in our economy, but there is no indication of any genuine and adequate state effort to achieve this urgent ideal. The result is poverty, and all its many painful incidents such as the violent methods of nature during the first two decades of the present century to restore a population balance. And poverty imposes grave limitations on possibilities of national advance, and our search for political freedom.

In the past few years, the weakness of our position in foreign trade has become strikingly apparent, and the heavy exports of "distress gold" at a time when central banking institutions all over the world have been making determined, wellnigh frantic efforts to amass gold, raise vital questions of currency policy; they also constitute a sad comment on our economic position. With the deterioration in her international trade position, it can no longer be affirmed that India is able to meet her debt obligations abroad and her 'home charges.'

What will happen if the forecasts of scientific men come true? Professor J. B. S. Haldane recently remarked that "by 1944 prices of food will fall so much that large numbers of agricultural states would go to ruin." The course of events during the past twenty years warrants the general soundness of this prophecy. Do we realize the import of this fast approaching fate on unhappy India maintaining one of world's largest populations on her own agriculture and struggling to buy manufactured goods from abroad at growing disadvantage?

The economist in India to-day is worthily engaged in the close study of economic fact and theory. But I venture to think that his most urgent task now is more than ever before, to rouse the conscience of both the people and the government to a consciousness of the peril towards which we are drifting and to the necessity of straining every nerve to reconstruct our economic life. Events are marching with such swiftness, the rest of the world with their alert governments is taking such rapid action, that if we are not up and doing now, aware of the possible dangers ahead and determined on the one course of salvation, our doom may be irretrievably sealed. That is the supreme task of the Indian economist—he is faced by a call which if missed today may never come gain.

I hope and pray that in this sacred task, you may play a worthy and successful part.

FINANCIAL AND ECONOMIC ASPECTS OF THE NEW CONSTITUTION

Prof. Karve.

With your permission, I wish to make a few observations on some of the notable points in the remarks made by the writers of several papers. As for the remarks of Prof. Thomas I cannot help thinking that it would be an unfair deal both to Prof. Thomas and to members of the Association to discuss his views on the flimsy basis of the few remarks that it was possible for him to make during the time at his disposal. As however, he has been chosen to lead the discussion on the subject and in particular as some of the remarks made by him appear to be in need of some further explanation, I venture to draw your attention to the relevant points raised by him. Prof. Thomas says, and in my opinion, very rightly, that the revenues of the Government of India are, on the present basis of its expenditure, no less inadequate than the revenues of Provincial Governments. He adds that there is no ground for expecting that in the immediate future as at the time of the introduction of the Federation it will be found possible to re-allocate any part of the central revenues among the Provincial Governments. From these premises Prof. Thomas deduces the conclusion that the only solution of the problem would be found in fresh taxation. Even leaving out of account for the moment the doubtful character of another of his statements, that fresh taxable capacity has been created in recent years which may very well be brought under the hammer of tax-gatherer, I do not see that even with fresh taxation the essential inequality of the present distribution of resources as between the Provinces and the Central Government will be removed for fresh taxation. The inadequacy and inelasticity of Provincial revenues, as also the inequality among Provinces, has been caused by withdrawing the entire proceeds of the Income-tax from the Provinces. These inherent in-equalities and defects of the present arrangements are not going to be solved by fresh taxation, which I consider as in itself undesirable at the present moment. I would like Prof. Thomas to elucidate the points further and to explain how fresh taxation will remove the inherent

defects of the present arrangement. Then again, Prof. Thomas has said that new taxable capacity has been created in recent years which makes fresh taxation an easy and justifiable affair. I would like to know from him what statistical proofs are there to show that new, as yet untaxed, taxable capacity has come into being, and if such be the case, whether the claim of reducing over-taxation in certain other quarters should not get precedence.

I am sure, Sir, that all of us appreciate the many illuminating points that Prof. Natesan of Calcutta has brought out in his most excellent paper. All of us would be inclined to agree to a great extent with many of his views. Most of us would agree, for instance, with the view that no practical purpose would be served by carrying on the account books of the Government of India all the accumulated dues to the central revenues on account of the suspended contributions from Railways amounting to 60 crores. We would also agree to the view that if the present allotments either for the removal of the old stocks, or for depreciation, or for introduction of new and elaborate plant are inadequate, a more satisfactory provision must be made for these purposes. But Prof. Natesan does not stop here. In his paper taken as a whole he has come to the conclusion, which he has slightly qualified in his remarks made here, that the revenues of the federation are not likely to receive any contribution from the Railways. In fact he feels, with the Acworth Committee that the general revenues should not claim to receive from the Railways anything more than the interest on capital borrowed from them. This is an argument which few will accept as justifying a total abolition of the railway contribution. For one thing, as Mr. Natesan himself has found out that in India and in the same manner in other countries, finance members have held themselves justified in using railways as a channel of drawing support to State treasuries from the tax-payers. But even if we consider the railways as a purely business corporation, a contribution on their part to general revenues is justified in the case of India; as the capital for Indian railways has been borrowed on the credit of the Government of India as a whole, the railways have to carry a smaller burden of interest charges than what they would have to do if they were to borrow on their own credit as the Port Trust or the public corporations do. It is not for past losses made up out of revenue, but for the continuous service rendered by the tax payers in the shape of enhanced credit that a contribution from the railways to the general revenues must needs be justified. The fluctuating character of the industry, the Railways the fortunes of which depend not only upon the general

economic conditions of the country but which also has to carry a burden of fixed capital charges is a matter of special consideration in this respect. As Mr. Natesan shows in his paper, during the course of the last ten years increasing railway surpluses have alternated with increasing losses. In the case of an industry which is liable to so much fluctuation some stabilising factors, such as contributions to depreciation funds, and general revenues is not without its usefulness. It appears to me that the payment by railways in fair years to the general revenues on the basis of a small percentage on the capital borrowed for the railways is not only justifiable in itself, as a fair price for credit lent but it would also be in the interest of railways themselves, because it will act as a check on their extravagant expenditure in good times.

Sir, I shall not encroach upon your indulgence much further than calling attention to an interesting point which our hosts Profs. Ayyar and Banerjee are discussing among themselves. Mr. Ayyar does not surprise any one of us by his political realism in saying that the new constitution will be no worse than the present one in the matter of financial powers, as the present fiscal autonomy convention is itself unreal so far as the legislature is concerned. It must, however, be admitted that the new Act vastly extends the influence of the Governor-General in restricting the financial freedom of the Indian legislature. I am entirely at one both with Mr. Ayyar and Mr. Banerjee that the present fiscal autonomy is a myth and the new autonomy that is coming is no better. The moral in my opinion is plain. In a State there is only one autonomy. You cannot have fiscal autonomy without commercial autonomy. You cannot have commercial autonomy without defence autonomy. All departments of national life are interrelated. It is only by vesting ultimate control for all national affairs in a new Federal Government that the State can be made to play that role of economic reformer which all of us desire for it.

Dr. P. N. Banerjea.

It seems to me that although some of the principles laid down in his paper may be accepted as correct, Dr. Thomas has taken up a somewhat unduly pessimistic view of the financial position of the federal government under the new constitution. It is true that at present the financial position of the Central Government is not very much better than that of some of the Provincial Governments. And this fact has been stated. But

in future the responsibilities of the federal government are likely to diminish while the responsibilities of the provincial governments are likely to increase. It will be necessary for the provincial governments to be placed in command of larger and more elastic resources.

The railways have not been able to make any contributions to the general revenues for the last five years. But it is to be hoped that time will soon come when the railways will be able to make the usual contribution of 5 or 6 crores. The country has passed through a period of unexampled crisis, which has produced deficits in the budgets of the Government of India. But I do not think that the present state of things will continue for any further length of time. The Government of India is likely within a reasonable period to be in a fairly strong position. If the provincial governments are compelled to levy fresh taxation at the very outset of the reforms, the new constitution will be an absolute failure. I, therefore, urge that economy and retrenchment should be tried in the political as well as the financial interests of this country. Many of the provinces have been in a chronic state of deficit during the last 14 or 15 years. In Bengal, as you all know, there has been no progress in any of the nation-building departments; on the other hand in some of the departments there has been an actual retrogression. For instance, the expenditure on Primary Education in 1933-34 was actually less than that in 1922-23. Besides, various means of taxation have been adopted to cope with the deficits. In the course of the last year as many as five taxation bills were passed by the Bengal Legislative Council. These additional taxes have increased the burden on the shoulders of the people of the province. Therefore, I urge that fresh taxation in any shape or form, must, for some time to come, be ruled out. I wish to make it clear that I am not opposed to the imposition of fresh taxes for the improvement of the condition of the country. As a matter of principle, I think that there are some taxes such as death duties and taxes on agricultural incomes which are eminently fair and equitable. But at the present moment, the imposition of these taxes will not bring any substantial revenue to the government.

Coming to the papers read by Mr. Ayyar and Mr. Banerjee, it appears to me that the writers have looked at the question from different angles. There is no doubt that if the substance is considered there will not be much loss under the new constitution, but the letter of the law is also important. But as Mr. Banerjee has pointed out, if we look to the letters of law there has been a change for the worse. In the spirit also there has been a loss.

Dr. Gyan Chand.

Dr. Thomas's proposal that the resources of the Provinces should be increased by laying additional taxation raises very important issues but is of no practical interest owing to the fact that the scheme of federal finance has already been decided upon and the only two points which remain to be determined are the proportion of income tax to be assigned to all Provinces and the share of the jute duty to Bengal. These points, whatever the decision, do not afford any scope for solving the financial problem of the Provinces which, as every one admits, are badly in need of funds for developing the Social Services. There is another point which has to be carefully considered in this connection, but which, though admitted, has not been dealt with at all in the new constitution. I am referring to the financial disparities existing between the different Provinces. These disparities are due to historical causes, but now call for redress because without it the pace of progress in different parts of the country will be very uneven and give rise to serious complications. I agree with Dr. Thomas that re-distribution of existing resources is not enough. We have to take recourse to additional taxation if we are to develop our Services, but for that we need political confidence and trust which are non-existent, and therefore the financial outlook for the country as a whole and for the Provinces must be regarded as far from reassuring.

Prof. Nateson is right in stating that it is no use carrying book liabilities in railway accounts which we know cannot be met, and, therefore, it is necessary to consider whether in the revision of the convention which now governs the separation of railway from general finance the Railways should at all be called upon to make a contribution to general revenues. But this should be considered with the whole question of the provision for the redemption of railway debt. At present redemption of railway debt is a charge on general revenues. This practice has been adopted without adequate consideration of the principles which should govern the repayment of debt and it is important that the revision of the Railway convention should be taken up along with the revision of the Debt Redemption scheme.

The points raised by Mr. Ayyar and Mr. Banerjee do not involve any material difference; but there is no doubt that the limitations of the fiscal autonomy convention which were implicit in the existing situation have been, as Mr. Ayyar says, made explicit in the new Constitution, and though the powers of the Governor-General are undefined, the extent to which they will

be used will depend upon the degree of effective organization of political life in the country, the future of which at present cannot but he merely a matter for speculation.

Prof. Vakil.

Prof. Vakil pointed out that there were some ways of finding more resources before fresh taxation was resorted to. He was of the opinion that the expenditure on debt services could be reduced by proper conversion schemes both in the case of the rupee and the sterling debt. In view of the prevailing low rates of interest and the absence of other avenues of suitable and safe investment such schemes would succeed. Prof. Vakil further referred to the exemption from income tax of payments of interest on sterling debt, and of payments of furlough and pension allowances in England. Under the new act this exemption was provided for in the constitution. This makes the arrangement for the relief of double income tax now in operation between the United Kingdom and India one-sided. If these payments were taxed by India the assesses would pay exactly what they pay now, because they would get relief from double taxation. But the relief would have to be provided mainly by the British Treasury. By the new Act the British Treasury is the gainer at the expense of the Indian treasury to the extent of more than a crore of rupees. Either the Constitution Act should be amended by dropping this exemption, or the provision for the relief of double taxation in the Indian Income Tax Act should be removed.

Dr. J. P. Niyogi.

Prof. Thomas has argued that there has taken place a striking increase of production in India and that it indicates that fresh taxable capacity was being created in this country. I am not concerned at the present moment with the validity or otherwise of this remark. For aught I know the position taken by Prof. Thomas may be perfectly sound, but I do maintain that the facts which Dr. Thomas has given us and the arguments which he has advanced do not support his thesis. If there has taken place a striking increase in recent years as Prof. Thomas wants us to believe, then we naturally expect the revenues from the railways in India to show some improvement, for the income from railways is an unusually accurate reflex of the economic activity of a country. I have the authority of Prof. Thomas for the statement! In his article (page 4), he says that economic

recovery in India would show an improvement in railway earnings.

Prof. Thomas continues "World conditions do not give immediate prospect of an increase in revenues from railways." But according to Prof. Thomas' own statement Indian conditions have improved. If that be so, why is it that railway receipts give no indication of such recovery?

Prof. Thomas has attempted to show that during the years 1929—34 there has been a striking increase in industrial production. Be it noted that this increase is not a casual one, confined to one year, but is a steady and persistent increase over a number of years. We are, therefore, entitled to presume that this production was carried on with a view to earn *Profit.* But we find no such signs in the income tax figures. Coming to the other part of the question—increase in agricultural production—we naturally expect the excise revenue and the revenue from Court-fees to show indications of the economic prosperity of the agriculturists. As a matter of fact, no signs of prosperity are visible. The only conclusion that is possible in the circumstances is that Prof. Thomas' figures need checking. It must also be noted that of the industries referred to by Prof. Thomas are protected industries, which naturally show the stimulating effect of production.

Dr. R. K. Mukherjee.

I would like to focus your attention to the question of the feasibility, nay, inevitability of fresh taxation during a period of agricultural depression through which we are passing. There is no gainsaying the fact that many tax-payers are over-taxed in India. But there are different kinds and grades of tax-payers. There is overtaxation in the case of the peasants. Investigations relating to peasant family budgets in different parts of India indicate that several taxes trench upon the necessaries of farming and living. But there is over-taxation because of the inequal distribution of the burdens of taxation. Now, in Bengal, we all know that the per capita expenditure on education and sanitation is much below the standards reached in Bombay and Madras. The remedy would be to readjust the burden of taxation. Readjustment in the near future should develop on lines of a progressive taxation on agricultural incomes and the imposition of death duties. Such taxation will be paying. It may be invidious but it will remedy past economic wrongs—the wrongs inflicted by an inequitous distribution of the burden of taxation upon

different classes. Such taxation will not be unpopular because such taxation will be used for wise public expenditure—to open more schools, to construct wells and tanks or to establish more health depôts and agricultural experimental farms. Wise expenditure on public works, facilitated by taxation, will ultimately increase taxable capacity. As in other countries, it will be, in my opinion, the only sure and safe road both to secure social justice as well as to help in the abolition of poverty and unemployment.

Prof. H. Rahman.

In one of the papers on the financial aspects of the new Constitution, it has been suggested that the proposed federation has been too generous towards the Indian states. This statement, I feel, cannot be allowed to pass unchallenged.

The first mistake made by people of this opinion is that they lump together all the Indian states into one category. This method of approcahing the problem is not only unscientific but also mischievous, because it gives one a false impression of a clash of interests between British India and, what is called, Indian India. Morevover, if the matter is looked at analytically and the case of each state is considered separately on its merits, we might have to admit that there are states who have not received a square deal.

The second mistake involved in this opinion is that it does not take account of past history. Astudy of the relation between the Indian states on the one hand and the foreign department of the Government of India on the other, will indicate how large territories have been taken away from the states on one pretext or another, and how large sums have been realised from them for the benefit of the British Indian provinces. If the question is considered in the historical background, I am sure the opinion of "undue generosity" towards the states will have to be changed.

Lastly, a word about the question of tributes, exacted from some of the Indian states. Some people in British India have been found to complain even against the proposed abolition of these tributes. To me this seems to be a simply preposterous situation. It will be indeed a curious federation in which some members will be paying tributes to others. I wish that the politicians in British India cease to assume an air of undue importance in their attitude towards the Indian states; I wish that they cease to talk as if they have been the great conquerors of the Indian states. The sooner they give up this attitude of

unfounded superiority, the better for them and for the states as well.

Dr. B. N. Kaul.

The economic functions of the state have expanded during the last decade or two to such an extent that it is not possible to effect substantial improvement in the economic condition of a people unless the state discharges its economic responsibilities satisfactorily. It is, therefore, a legitimate method of approach to judge the merits of a constitution by the extent to which it will secure improvement of the economic well-being for a people.

In order to do this it is necessary to agree on some objective test of economic welfare. The most desirable quantity for this purpose appears to be the national dividend. The question we have to decide is how far the new Indian constitution will succeed in increasing the national dividend or in organising economic development. The organisation of economic development raises two question—whether the general scheme of administration provided by the Government of India Act makes it possible to give effect to an organised programme of economic development and whether the centres of power will be so constituted as to be actuated with the desire to take up this responsibility. The general scheme of administration under the Act vests power in unco-ordinated centres and the allocation of functions among these centres has been made in such a way that planned development will not be possible. It also makes no provision for the creation of an economic advisory organisation which is essential for organising economic development.

As regards the composition of centres of power, the Federal and Provincial Legislatures will be composed of representatives of vested interests and property owners. They will be mainly interested in the welfare of the class they represent and not of the country as a whole.

The new constitution is essentially a safeguarding constitution. It will not be possible under it for any one sectional interest to make serious encroachment on the standard of living of any other class, in spite of transference of some power. But its merits are also its defects. The general scheme of administration and division of power and the composition of centres of power provided by the Act make it unlikely that any remarkable improvement in the economic condition of the mass of population will be effected by virtue of the coming into force of the new constitution. Economic improvement, so far as it will be

achieved, will be largely the result of private initiative as at present.

Professor Thomas.

The chief points that required answering were whether production had lately increased in the country, and even if it had, whether it meant an addition to the taxable capacity. That production had strikingly increased in the last few years was clear from the "Monthly Survey of Business Conditions" and other publications. As for the effects of production on taxable capacity. There were indications that it had benefited seeing that the increase of industrial production had not been at the expense of agricultural or other production. Importation of articles like sugar and cotton piece goods had diminished, and to a large extent Indian produce had taken the place of the foreign. This had given a fillip to trade and business at home, and has had beneficent repercussions on inland trade. Some of the existing taxes had improved, as for example income-tax, excise and stamps. It was true that railways had not benefited by the increase in inland trade, but that was due to the fall in the export and import trade and the competition from roads. The Indian railways were in a bad way, but that gives no indication of the economic condition of the country.

Increased taxation may not be a real burden if wisely spent on social services, which enhance the wealth and national dividend of the country. If this country must take leap forward, we must raise additional taxation and spend it on right lines.

Mr. L. A. Natesan.

Dr. Bnaerjee seemed to imply that I had been rather gloomy in my attitude towards Railway Contributions. But we find that traffic receipts, despite the optimism in the last Railway Budget, continue their downward trend and that even on the most generous computation—assuming that we enter the era of prosperity next year—it would take more than a decade to replace the loans from the Depreciation Fund alone taking into account accruing obligations as well. One cannot derive much comfort from optimism alone, however, simulated. Dr. Gyan Chand referred to the appropriations to the Sinking Fund which had not much relevance to the problem I have dealt with. It was instituted, as far as I remember, for the redemption of debt generally and not the specifically railway debt. Further the terms of the

Convention, so far as present financial arrangements with the railways continue do not take this into account, and I was primarily concerned with the operation only of the terms of the Convention. I entirely agree with Prof. Vakil in his desire that the Suspended Contributions would be paid back to the General Revenues. But if mere wishes would make us rich, the Government of India would be the richest government in the world. He has not allowed for the fact that, as the position stands at present, the Railways cannot pay. Their net earnings are at present insufficient to cover even Interest Charges. With the loans from the Depreciation Fund and other accruing obligations, the net earnings for some years to come are likely to leave very little indeed to be paid to the General Exchequer. I am obliged to Prof. Karve and other speakers for the courteous terms in which they have referred to my paper.

Mr. D. N. Banerjee.

Mr. D. N. Banerji opposed the contention of Dr. Gyan Chand that the industrially advanced provinces of India should be subjected to the burden of additional taxation for additional taxation for the benefit of the industrially backward, deficit provinces like Bihar or Assam or Orissa. Apart from the inequity of such a policy, it would encourage the demand for, and the ultimate creation of, a number of deficit provinces depending for their progress upon the good will and the charity of the Central Government—cum-industrially advanced provinces like Bengal and Bombay.

Mr. Muniswamy.

While I am perfectly aware of the different circumstances under which the Indian states have come to recognise British paramountcy and also of the different circumstances under which the interests of some of the states have been sacrificed to the interests of British India and the differences in the economic conditions of the different states, I am unrepentent for the attitude that I have adopted towards the financial settlement embodied in the Act of 1935. It seems to me that many of the Indian States are let off practically free without corresponding financial obligations being imposed on them; the contribution of these states to the total military expenditure under the proposed federation is comparatively negligible. In fact, a revision of the settlement between the federation and the Indian states is called for. Possibly some of the states are in a position to

influence the British Government as the latter is especially anxious that the states should enter the federation as a stabilising element. The inclusion of the states under the proposed federation is largely because of the extra economic considerations, that is to say, as a factor balancing the influence of the British Indian politicians.

STRUCTURE OF INDIAN INDUSTRIES

Mr. J. N. Sengupta, M.A., B.L.

Dr. Mukerjee has made an illuminating classification of our cottage industries and handicrafts bringing them under different categories according to their importance to our rural economic life. He has also furnished us with a descriptive study of the organisation of some cottage industries in the U.P. The study, I need hardly say, has more than a local significance. Likewise the paper of Mr. Thomas dealing with the structure of Japanese industries will be read with particular interest even by students of Indian Economics, as it provides us with a study of the industrial structure of the most industrially advanced and progressive Asiatic country.

In both these papers we get very valuable material indeed. I only wish that the eminent authors had given their respective papers a more purposive character by way of indicating, on the basis of the data collected by them, the line in which the future evolution of our industrial structure should take place.

To us, at present, the structure of particular types of industries, seems to be no matter of choice, but definitely determined by certain economic principles formed on the basis of our experience of superior internal economy and competitive efficiency of particular kinds of industrial organistion. Thus it would be almost a truism to say to-day that metallurgical and ship-building industries must be of a considerable magnitude, if at all these are to be brought into existence. Similarly, we have our acquired notion of what the economic units in some other industries should be like, large or small.

At the same time it would not perhaps be wrong to say that the evolution of the industrial structure is also materially susceptible to the influence of the economic environments of particular countries. If we can correctly apprasie these environments, both in respect of their special advantages and disadvantages, it should be possible for us to direct the evolution along particular lines according to a pre-determined plan conceived in the best economic interests of the country.

Taking this view of the problem, I may be excused if I venture to place before you a suggestion that the structural evolution of our manufacturing concerns should generally speaking, be on a cottage industries basis.

I am aware that in making the suggestion I am expressing myself against the opinion of some of our leading economists. I

should, therefore, hasten to say that the suggestion is by no means a dogmatic assertion; on the contrary, it is a very direct reference to which we are led by a study of the evolution of the structure of Japan against the background of the preponderance of agricultural population in both Japan and India as well as the affinity in the outlook and traditions of the people of the oriental countries.

Further, the suggestion would appear to derive special force from an objective survey of the prospects of our large-sized factory industries, such as jute, tea, coal, sugar and even cotton which have already reached the saturation point and are confronted with the danger of over production. From the standpoint of the wider economic interests of the country, it seems to be extremely doubtful whether even a spectacular expansion of our large industries would materially help us in relieving the existing uneconomic pressure on land and in establishing an equilibrium between our agircultural and non-agricultural occupations.

Till now, the large industries inclusive of factories of all descriptions have absorbed no more than 1½ million people, even while most of them have attained the stage of over-production. Even if it had been possible for us to double the number of our large-sized industrial establishments, viz., our jute mills, sugar factories, cotton mills, tea plantations and collieries, these would have provided a scope for the employment of no more than 3 millions, and our basic economic ills arising from the lack of equilibrium between agricultural and non-agricultural occupations would still persist.

Lest I should be misunderstood, let me say that the terms cottage industries in the suggestion are used in a non-conventional sense. I wonder if cottage industries have been very clearly defined yet by any of our economists, although we are acquainted with classifications of such industries as non-subsidising and subsidising to agriculture, urban and rural and so on. Even apart from such regional distinctions, it is perhaps possible to describe them also by way of contrast with factories, *i.e.*, in the light of persons employed, or even according to any standard of our choice or the productive equipments of such industries.

However, I hope I shall not be far wrong in assuming that cottage industries commonly understood are those which are conducted as a domestic occupation by the workers engaged in them. If this is conceded, it would not be difficult to explain how by providing a certain measure of extraneous help the desired industrial development of the country can be brought about through cottage industries in a safer and more fruitful

manner than by the establishment of large manufacturing concerns. Eventually the idea is to bring the production of standardised goods for mass consumption within the scope of our cottage industries, and the help that would have to be extended to them for this purpose would comprise the provision of such facilities as would minimise the disadvantages, technical, financial and marketing, usually suffered by our cottage industries *vis-a-vis* the large manufacturing establishments. It would be possible to surmount these difficulties, if only the distinct processes involved in the manufacture of articles are separated and taken up by different groups of cottage industries, assisted by mechanical power, each of them working under the direction of a coordinating agent.

This arrangement has profoundly affected the industrial structure of Japan to the lasting benefit of millions of her agricultural population.

The special features of the Japanese system might be best illustrated by reference to a concrete illustration, but I am afraid that the time available at my disposal will not permit that. I may, however, tell you that the most important feature of the Japanese organisation is the jobber, who just like the *karkhanadar* just now described by Dr. Mukerjee, is the pivot of the entire system. Another most important feature is that in Japan electrical power has been harnessed to almost every stage of the manufacture of cottage industry products.

Lest I should be misunderstood let me say that I do not propose an imitation of the Japanese system—lock, stock and barrel—in India. On the contrary, I believe that the counterpart of the jobber in the proposed re-organisation of Indian cottage industries should be dispensed with, as otherwise the system may lead to exploitation of the poor and ignorant cottage industry worker. The place of the jobber may be taken in India by an institution of the nature of the Co-operative Artisan Banks recommended for U.P. by the Pochkhanwalla Committee—providing for both financing and marketing facilities.

I may further point out, in this connection, that the Japanese system should attract us not only for helping an occupational re-distribution of the people on a considerbale scale, but also for giving to our cottage industries a superior competitive efficiency *vis-a-vis* our large manufacturing concerns in the replacement of our imports. I need hardly stress that the replacement of imports will ultimately determine the potential scope for expansion of our industries.

In conclusion, I should like to say that even though resources of water-power may not be available in all parts of India, we need not consider the adopting of such a power to be altogether an important proposition. It is not a fact that water-power is the cheapest form of energy always and everywhere. On the contrary, it has been found from experience that in countries where coal is available in abundance and at moderate prices it is more economic to generate power from coal-driven engines than to obtain the energy from expensive water power installations. India has a plentiful supply of coal, the price of which must remain low owing to the loss of export markets and the displacement of its use in numerous industries by other kinds of fuel. We have already electric installations set up in most of the district towns, and we have also in many instances the necessary essentials of cottage industries in particular areas such as is necessary to keep the distribution cost of electrical energy at a moderately low level. We only require some state help and a state policy to bring this power within the reach of our cottage industry workers.

Dr. H. L. Dey.

Referring to Dr. Lokanathan's paper on "The structure of industry in India," Dr. H. L. Dey pointed out that there were certain inconsistencies in it, which needed clearing up. Thus, for instance, on p. 451, paragraph 3, the author stated that the Bombay cotton mills had been efficient because they had been organised on a large scale. But, on the very next page, para 2, he quoted the Tariff Board with approval to the effect that in the cotton textile industry of India, better results were likely to be obtained from close personal supervision than from large scale production or management. Again, on p. 454, paragraph 1, the author said that the cotton industry had been able to withstand the depression because of the advantages of the managing agency system, while, on p. 456, paragraph 1, he contradicted himself by saying that in Bombay the managing agents had found every one of the units under their control equally hit during the recent depression. It, therefore, appeared to Dr. Dey that Dr. Lokanathan had been speaking in two voices and he wanted to know which was the author's real voice.

But apart from these internal inconsistencies of the paper, continued Dr. Dey, some of the statements made and opinions expressed therein conflicted with well-known facts, and he invited the author to help him to solve the difficulty. The author

had stressed the various economies that could be commanded by the leading agency firms and had referred in particular to one such well-known firm which had efficienctly managed a large number of jute mills, tea companies, coal companies, etc. If these leading firms of managing agents had very ably managed the various concerns under their control, then, asked Dr. Dey, how could we explain the fact that the jute mills, collieries and tea companies had been faring so badly in the last few years? How was it that the jute manufactures of India were being gradually ousted by the newly sprung jute mills of foreign countries? How were we to explain the fact that Indian tea had been barely able to keep its position in the British market in spite of a considerable degree of preference and that it was being rapidly driven out of other neutral foreign markets by the Chinese and Japanese teas? And, finally, how to account for the fact that the Indian Coal industry had been the hardest hit by the depression? Proceeding, Dr. Dey referred to the effect of the managing agency system on the steel industry of India. He stated that, according to the Times of India Directory of Bombay City and Province, in 1930, the Tata Sons, Limited, controlled at least 14 major companies dealing with iron and steel, power supply, cotton textiles. cement, oil mills, etc., whereas there were only 9 persons who constituted the agency. As a result of this concentration, there was lack of effective supervision and control. Although the Jamshedpur Works had a block valued at over Rs. 20 crores and although the workers there ran into many thousands, it was a very curious thing that not one of the Directors lived for any length of time at Jamshedpur. Consequently, the famous Tatas had shown the marvellous feat of attempting to run the awe-inspiring, gigantic steel factory of India simply by means of lengthy correspondence across a distance of over 1000 miles. No wonder, therefore, that Sir M. Visweswareya, in the course of his personal investigations in 1930, found that there was no budgetory system at the works; that there was too much secrecy in the figures given to the Board; that the system of management at the Jamshedpur Works was antiquated; and that the Board had no control over it. Dr. Dey, therefore, thought that the very fact that there was inefficient management of the greatest single factory of India, to whose aid the nation had contributed a sum which probably exceeded the total share capital of the Company, and which had been under the control and supervision of the best group of entrepreneurs that India had yet produced, constituted a sufficient condemnation of the system itself.

The same judgment held largely true of the Bombay cotton textile industry as well. According to the evidence tendered by the Bombay Share-holders' Association before the Tariff Board in 1932, a few persons connected with some elading managing agency firms, through the system of interlocking interests, had managed to become Directors of far too many companies. Thus, for instance, it was revealed that one gentleman had become director of as many as 65 different companies, another of 42, and a third of 29. What chance, asked Dr. Dey, was there for any effective and competent supervision when there were so much concentration of control and plurality of directorships?

Mr. Panchanan Chakravarty.

He argued that Dr. Lokanathan was wrong in supposing that the existence of small industries pointed to a discrepancy between theory and fact; Marshall himself had given two explanations—the so-called "biological" explanation and the one based on imperfection of competition. Mr. Chakravarty again did not agree with Dr. Lokanathan that a preponderance of agriculture must mean that industries will necessarily be on a small scale. In this matter, the speaker urged that the influence of tenancy laws on the structure of the agricultural industry needed exploration. He finally pointed out that the managing agency system of India is not so unique as Dr. Lokanathan supposed—"the holding company" of the United States of America was, in many respects, a parallel to the Indian system.

Prof. S. V. Ayyar.

Professor Lokanathan's paper is one on the structure of Industries and much of the criticism of Dr. Dey about the mismanagement of some of the Managing Agents appears to be overdone. Dr. Lokanathan's paper does not make any special pleading for the system of managing agents in general, or of the Tata's or Sir Thomas Catto's group in particular, but merely attempts to describe the nature of the organisation in India and its peculiarities or problems—if any. There is no need to assume what no one has attempted to suggest and to make a valiant attempt to demolish what was never claimed. Dr. Lokanathan, however, has posed for too many questions and answered very few of these. It may be part of a scientific attitude. But the claim made by Prof. Lokanathan that 'the system of Managing agents has been responsible for a weakening

of industrial units and for an arrested development of industry' requires further investigation or elucidation. That view may or may not be correct, but, on the whole, the managing agent system appears to have been a natural and almost an inevitable development in a country like ours which suffered and probably still suffers from the inadequacy of trained entrepreneurs. It might be that the Managing agents have contributed in no small degree to increase the size of the business units and to attract the investment of capital in India which would otherwise not have been done to the same degree. It may also be that the successful progress of the managing agent system with its interlocking directorate and financial concentration may be the prelude to monopolisation in some directions.

WAGES IN RELATION TO COSTS

Dr. P. S. Lokanathan.

Prof. Lokanathan said that he would like to confine himself just to two or three points arising out of some of the papers. First, he was unable to follow Dr. Gyan Chand in his argument that the marginal productivity theory was absolutely fallacious. He could not think of any other theory which could explain so satisfactorily the theory of wages in equilibrium economics. The general level of wages in a country was no doubt related to the particular social structure of the community, but it was only the marginal productivity theory that could explain why in relation to conditions prevailing in a country, wages in one industry were at a particular level. The theory rested on certain assumptions which were only formal and no more extreme than those usually adopted in the elucidation of any kind of economic theory. In its essence it was applicable to every kind of society, the capitalist as well as socialist. Even in Soviet Russia if in any industry the supply of labour was less than that required to meet the demand for it, a transfer of labour from other industries would have to be effected by the payment of extra remuneration, even if it took the form of real wages. The way in which capital and labour get transferred from one industry to another could only be explained by the marginal productivity theory. The only diffeernce between the Soviet and capitalist societies was that in the one consumption was organised *for* the community, whereas in the other, the consumer was given a free choice in consumption.

Further, Dr. Lokanathan said that Mr. Madan had attempted to give a revised version of Mr. Hobson's over-saving theory. The defect of that theory was well-known, and for that reason could not be accepted. If the over-saving theory were correct, crisis must first develop in industries producing consumers' goods and not as it has actually happened in those producing producers' goods. The statistical argument of Mr. Madan could not be accepted because the diminution in the proportion going to wages might have been the result of the depression rather than the cause of it. As for the remedies suggested, an increase in wages instead of lessening depression would only accentuate it. It was no use saying that in the long run, an increase of wages would be very desirable, because we were cnocerned more with the short period effects which were, according to Mr. Madan himself,

wholly injurious. President Roosevelt's policy of increasing real wages did hinder recovery, as every one now realised. Dr. Lokanathan concluded by saying that this and other allied theories were in the melting pot and that more study and research were required before one could accept the thesis of Mr. Madan.

With reference to Japanese wages, Dr. Lokanathan said that Dr. Dey seemed to convey the impression that they were in fact unduly low. This was not so. For although they might be lower than those prevalent in Great Britain, they were not low as compared with wages in India. One should add at least 50 per cent to the actual money wages of the workers to get a true idea of their real wages, for the workers enjoyed the benefit of various amenities of life. While agreeing with Dr. Dey in the general theoretical argument of his paper, Dr. Lokanathan pointed out that there were circumstances when tariffs against certain classes of goods were justified, for in these too rapidly changing economic conditions, a country might well be content with less of economic progress and more of economic stability. There were great rigidities in the economic life of many countries at the present time, which rendered quick and rapid adjustments to rapid changes outside very difficult indeed. A tariff was on occasions a defence against the economic insecurity of modern life. Dr. Lokanathan also pointed out that the people who talked of absolute freedom of trade were also those who in the same breath argued for economic planning for India. No economic planning could function successfully which did not allow for some restrictions on the free import of goods and free enterprise. It was the absence of a scheme of scientific thinking on the economic life of the community as a whole that explains the tragic inconsistencies of some of our economists.

Dr. E. D. Lucas.

I do not propose to speak about the technicalities of the wages problem in the United States as this is not my particular field of study. I shall deal with the question of American labour conditions in a general way, and, I am afraid, in a rather popular and unscientific manner. The essential facts about the American labour conditions may be summarised briefly as follows:

1. There have been a constant stream of labour-saving devices in recent years and development of scientific management, rationalisation of industries and general improvement in

the technique of production which has led to a race between the opposing forces of decreasing demand for labour created by the above mentioned facts and the increasing demand for goods created by a rising standard of living.

2. Since the war, the stream of immigration which provided, broadly speaking, the lowest grade unskilled labour in America was largely closed. Thus, while in the years immediately preceding the war, the net immigration was between one or two millions a year, in 1932, there was an actual excess of emigrants rather than of immigrants. This, in itself has changed the character of American labour and it may be said that the whole of labour now is accustomed to an American standard of living.

3. My third point is with regard to the shortening of the hours of work which has given the masses in America more leisure than possibly in any other country. Indeed, the problem of the use of leisure by the American masses is one of the most serious problems facing the people. If increased leisure is to be used merely in attending cinemas, foot-ball and bats ball games, it is questionable whether there is much net advantage to society as a whole. Perhaps the most encouraging feature in America is the growth of popular interest in music of all kinds, dramas and many other forms of art expression by community groups. Perhaps there has been no country more severely affected by the depression, at least in so far as it affects the employment of labour, than the United States. The fundamental cause of this depression was a lack of balance between production and consumption and perhaps the class most severely affected in the depression by an unfairly small share in the national dividend was the farming class.

As farming still employs 25 per cent of the entire number of workers, their loss of purchasing power had a cumulative effect on the demand for goods. The great extension of area shown to staple crops did not contract sufficiently rapidly in the post-war period with the fall in demand. This led to enormous surpluses in staple products which piled up year after year.

One of the main tasks of the Roosevelt administration has been the restoration of the balance between agriculture on the one side and industry in general on the other and here it is that the administration has met with most success.

I will not enter into the question as to whether the National Recovery Act in its attempt to regulate industry as a whole and the handling of the currency and banking problems has been wise or not but while not attempting serious prophesy it seems

very likely that the American Presidential election which will take place this year will see the working classes and farmers largely advocating the re-election of President Roosvelt. But he will be bitterly opposed by large sections of the business community who have not yet been reconciled to the social implications of the Roosevelt era. That the period of intense individualism in American life is passed, I think, all would admit. But whether Roosevelt has unduly quickened the pace of social consolidation, or not, so far as popular judgment goes, will be decided in November next. Here, speaking personally, I believe Roosevelt will be given a second term and that this vast experiment in attempting to pass over from an intensely individualistic system of society which had not yet attained any security for the individual worker, into a wisely consolidated social system for the nation as a whole and the recognition that all classes of society must be guaranteed employment on wage levels which ensure an American standard of living, will be granted an opportunity to complete its task.

Mr. Satyendranath Sen.

Mr. Satyendranath Sen criticised Prof. Gyan Chand on the ground that he had stated in one place of his article that the economists had accepted the theory of marginal productivity because it seemed to supply an ethical justification of the present distributive system. That is certainly a misreading of the minds of the economists. There is no penumbra of approbation or disapprobation round the marginal productivity theory. Next, Mr. Sitaram Shastry has stated in his article on "Wages and International Trade" that "inequalities in factor equipment give rise to serious consequences." The speaker failed to understand what these serious consequences would be. Inequalities in factor equipment will give rise to larger and larger volume of International trade, and his statement therefore seems to imply that international trade itself is bad. Moreover, how are we going to reduce these inequalities in factor equipment? Differences in wage levels will remain so long as there is immobility of labour and capital, and these differences are the mechanism through which the gains from international trade are shared between different countries, Next the speaker wanted to point to another statement made by Mr. Shastry. He has stated that Indians invest their savings in precious metals because our currency system, was not directly linked with gold. In the opinion of the speaker, this myth should go. Our hoarding

habit is due to many causes, but the circulation of a few gold coins would not have cured it atogether.

With regard to Mr. Madan's paper, the speaker pointed out that it was, more or less, a revised version of the social credit theory of Major Douglas. That theory is open to serious objections. For example, the first sign of crisis is not a fall in the prices of consumption goods, which Mr. Madan seems to imply, but a fall in the prices of investment goods. It is not true that a crisis occurs because there is a deficiency of purchasing power but because more purchasing power comes to the market for consumption goods before final goods have been put on the market. For, as Robertson has pointed out, the circuit velocity of money is greater than that of goods. The trouble is not that there are more ripe fruits and few buyers, but that we want to pluck the fruits before they are ripe.

Prof. Narasinha Aiyanger.

Mr. B. K. Madan has enlarged the scope of our subject by making it a preface to the theory of crisis, but I do not feel called upon to follow him in that wide field. Limiting myself to his introduction which deals with our topic "Wages and Cost," I wish to point out a few things where I differ from him, and these are his interpretation of profits as included in costs (page 1 of his paper) and as not differing from other forms of income and secured by his correlation of spending and saving (p.c.). There is no doubt a wide divergence of opinion between the individualist elastic theory of distribution and the socialistic theory. But both seem to be agreed that profits and rent are a distinct category from that of wages and interest, and that while the latter are legitimately included in the cost of production, the former should not be. According to the elastic theory, profits themselves include different forms of income, insurance against risk and uncertainty, wages of superintendence etc., and pure conjunction profits, and the former two only may be reconed in costs and not the latter. Of course, the socialist economist would not agree to the distinction being so restricted. Anyhow, both are agreed that profits have to be placed in a different category even from the economist's point of view. Then, in regard to the relation between spending (or investing) and saving Mr. Madan's view is not acceptable in the light of recent economic theory. The two differ considerably as Mr. Keynes has so elaborately explained in his treatise. Again Mr.Madan has not distinguished between money income and goods income of a country.

To turn to Dr. Gyan Chand's paper, the productivity theory which he has so severely criticised is no longer held in the form he has assumed it to be. We no longer believe in the specific productivity theory but only in the marginal productivity theory. But here the whole trouble about wages is that it is indeterminable. I may, in this connection, refer to the recent controversy between Dobbs and Keynes. (See Political Quarterly for 1930-31 in which Dobbs seems to have come out the better.)

It appears to me that the question of " Wages and Costs " should include prices also, to give us a satisfactory answer. The prices should be high enough to cover costs, and wages would, of course, be included in costs; but I would like to go further and say that wages should be high enough to make the labour work and eke out his living rather than prefer to be unemployed and prove a parasite upon society. I would, therefore, amend the old proverb that a labourer should be worth his form by adding that the form should be worth the man and mind. Both the individualist and socialist economists are agreed that the community has somehow to maintain them by work rather than by charity. Hence I would advocate the establishment of a minimum wage scale to the lowest class of manual labour, sufficient to enable them to live and make that an element of cost and therefore of prices which any productive process should be able to achieve. In these days of state intervention within a country and international co-operation outside, it may not be impossible to establish such a standard. Of course, the standard would be different in different countries with different price levels, but such standards can be worked out in each country on a non-monetary basis first and then reduced to terms of money in the different countries. In each country then, the wages of other classes of workers will automatically be established by the ordinary laws governing the relative wages of different employments.

Dr. Gyan Chand.

Dr. Lokanathan, if I may say so, has mixed up the question of incentives with the marginal productivity theory. The marginal productivity theory is intended to explain the fact that there is correspondence between rates of wages and the contribution of each individual and each class. That even in Russia we require some incentive in order to promote production has no bearing whatsoever on the question we are now discussing.

Dr. Lokanathan has said that the only difference between Russia and a capitalistic country is that in Russia consumption is controlled while in a capitalistic country it is not. This is not a correct statement of facts so far as Russia is concerned, but apart from that, it has no bearing on the point at issue.

The issue which I have been discussing is that marginal productivity theory is intended to explain the difference of income between different individuals and sections of the community. As an explanation of these differences the theory is not only inadequate but essentially incorrect. These differences are arbitrary and without any rational justification. The theory involves reasoning in a circle owing to the fact that the working of the principle of subsitution through which contributions of different factors of production and individuals is assessed itself depends upon the rates at which they are remunerated. In a highly integrated economic life it is impossible to estimate what each individual or class contributes to the national income and the assumption that there is even a rough corrospondence between the contributions and rewards under the existing conditions is unwarrented and not borne out by the facts of the case.

The substance of Dr. Dey's paper is that the international difference of wages are not an important factor in differences of costs. It is true, as the economists often contend, that low wages do not mean low costs. But all differences of wages are not accounted for by differences of efficiency and it is possible to combine low wages with high efficiency. Apart from efficiency, the differences of wages are determined by the relative weakness and strength of working classes and peculiar national circumstances of each country and are partly a measure of the ability or otherwise of the working classes to assert their rights and get their due. This fact is an argument for safeguarding the position of workers against the deleterious effects of competition of countries in which the wages are unduely low inspite of the fact that in practice the argument has more often than not been used by the industrialists to get unmerited measures of protection for their own vested interests.

Mr. B. K. Madan.

Dr. Lokanathan says that I have referred to the fall in wages and that the fall in wages may be the result of depression rather than the cause of it. In the first place, I have referred to no actual fall of wages. Wages were in fact rising, but their rise was less than in proportion to the rise of interest and

dividends and higher salaries, or in other words, there was a relative fall of wages. This relative fall, secondly, was not the result of depression, for it occurred during the seven pre-depression years. Thus while during those years all production rose by 37 per cent. the share of capital and management rose as much as 83 per cent. and of labour by only 19 per cent.

I do not put forward the Douglas theory of crisis. According to that theory saving as such causes a deficiency of demand for consumer's goods, and fresh infusion of created purchasing power into circulation is constantly necessary to maintain demand for consumption goods and the present level of prices. I have on the other hand referred not to absolute saving, but to relative over-saving, and the resulting disproportion between the share of labour on the one hand, and of capital and management on the other. This is, moreover, only a part explanation of the crisis and not the whole explanation.

Dr. H. L. Dey.

Dr. H. L. Dey, replying to the objections that had been raised by Dr. Lokanathan against his paper on " Low Wages and Unfair Competition in International Trade," said that there were three points in particular which required consideration. The first point was whether the Japanese wages were low or not. Dr. Dey had made a rather cautions statement in his paper that, due to a rapid growth of population in Japan, it was probable that the wages of unskilled labour in that country were abnormally low. He supported his conclusion, firstly, on the theoretical ground that, if the supply of labour became inelastic due to a rapid growth of population, wages tended to remain too low; and secondly, on the authority of I. L. O's publication called " Industrial Labour in Japan," p. 375. Dr. Dey further pointed out that such a situation was not peculiar to Japan alone, but that wherever the supply of labour increased too rapidly to be absorbed by demand, wages would tend to become abnormally low in the sense of being below the cost of the normal standard of living, *e.g.*, unskilled labour in U.S.A. in the nineteenth century, wages of chemists and chemical assistants in Germany in the pre-war period, and the earnings of educated middle class people in India at the present day.

The second point raised was whether tariff barriers were justified as a safe-guard for the existing standard of living against the competition of low-standard countries. Dr. Lokanathan had said that they were, at any rate as a short-period remedy.

Dr. Dey replied that the safe-guarding argument was not only fallacious but also dangerous in the extreme. It was fallacious, because if a policy was wrong in the long period, what was the use of adopting it in the short period? It was dangerous, because the safe-guarding of existing standard of living was really equivalent to the safe-guarding of vested interests, which ultimately meant opposition to all progress. Moreover, he asked, was it not the desire to protect existing standards that had led to the imposition of all sorts of trade restrictions in the recent depression, and was it not such a mad policy of trade restrictions that had created the tragi-ridiculous paradox of ' poverty in the midst of plenty,' to which the world had fallen a miserable victim in recent years?

And the third point that had been urged against his paper was that not only economic factors but also non-economic factors had to be taken into account in considering the goodness or the badness of tariffs. To this, Dr. Dey replied that the duty of the economists was, first and foremost, to show the economic consequences of particular policies by means of scientific analysis. That is what economists quo economists could say with any degree of precision and authority. And that was the job they were expected to do thoroughly and well. When it came to the weighing of economic against non-economic considerations in the case of a particular programme or policy, the economist had passed beyond the limits of his own province and had assumed the role of a citizen, or a politician or a communist or a fanatic, or whatever else one liked. Dr. Dey, therefore, urged that economists should know precisely when they were speaking as economists and when they were speaking in some other capacity, and must take pains to make their position perfectly clear to the general public.

Mr. Ch. Sitarama Sastry.

Dr. Dey's paper is a good one containing close analysis and argument. But as all deductive methods of approach to a subject, Dr. Dey's method also is based on certain assumptions and one of his fundamental assumptions is that whenever a protective duty is imposed it tends to a diversion of capital and labour from exportable industries to protected ones. This assumption is not always true. Ohlin has given a number of instances where there need be no such diversion because of temporary conditions on which Dr. Dey himself lays emphasis. In all such cases, protective measures adopted to arrest the

downward march of events in particular industries are always helpful to resuscitate such industries temporarily in a depressed condition. Hence it is difficult to agree with Dr. Dey's sweeping conclusions.

LAND TENURES

The Hon'ble Khan Bahadur Azizul Haque, Minister of Education, Bengal.

Mr. Chairman, I am indeed very grateful for having been given the opportunity of opening the discussion. I have before me two outstanding papers—one of Prof. Joshi and the other of Mr. Sachin Sen. Mr. Sachin Sen has described himself as an advocate and he has cleverly presented the case for the land-holders. I admire him. But I think we should not go out on hearing one-side of the case. It is not for me, another advocate, to go to the other side of the question. I should only say in a gathering like this that I think it is due to you that we should know the real facts of the other side of the picture. Mr. Sen has characterised the Bengal Tenancy Act as the Act of land-owners. In Bengal to-day, the present state of agricultural deficiency and the acts of Government have been responsible for creating this unhappy state of things. In this connection Mr. Sen also refers to the land laws. It is just on this occasion that the question of proprietorship was very much at issue in the Bengal Legislative Council and in this connection we find two records. One of them is Regulation III of 1794. There is an attempt in the regulation to define what the word "owner" means. Here, for instance, is a definition of the word "owner" taken from a recent English Act the Public Health Act of 1875: "Owner" means the person for the time being receiving the rack-rent of the lands or premises in connection with which the word is used. Sir Courtney Ilbert said in this connection that at the time when the Permanent Settlement was promulgated there were three parties to the bargain—the landlord, the tenant and the Government, and he said that so far as revenue was concerned, Government were not concerned with the question as to who were the actual tillers or proprietors of the soil. As regards the question of agricultural deterioration in Bengal, I think my friend would be kind enough to read the paper of my other friend Mr. Satyendra Nath Sen. I have only thought that as a matter of fact the agricultural deterioration is not due to any tenancy laws but to circumstances, which are perfectly well-known to anybody. I am not going into the question of right or wrong but as a matter of fact when the Bengal Tenancy Act was passed, it was forced upon the Government. What were the terms of the Permanent Settlement? One of the terms was that the tenant was to be given the *patta*.

The rights of tenants were trampled upon by landlords and old records were obliterated. The Government intervened because they were forced to do so. The restoration of rights of the tenants was essential in the interest of agriculture.

Mr. Sachin Sen cleverly avoids the history of the tenancy legislation because that was not convenient for establishing his thesis. In Bengal the rental receipts are something like Rs. 18 crores and land-revenue only Rs. 3 crores. This huge sum is given to landlords as the *quid pro quo* of some of the rights given to tenants. Mr. Sachin Sen says—" Arrears of revenue are not tolerated whereas arrears of rent are permitted." This was done because the landlords were able to intercept a large income.

The Tenancy legislation was conceived by British statesmen and it was not possible that such an act could help agricultural deterioration in Bengal. Its intention was to wrest powers from oppressive landlords. Through the operation of the Haftam Regulation the tenants suffered grievously and summary powers were given to zemindars thereunder. Still Mr. Sachin Sen complains that the Tenancy Act, to quote his own words, helped the Government to screw better revenue under " Stamps." This is a wrong interpretation of history.

Prof. V. G. Kale.

Coming from Bombay I am grateful to Prof. Radhakamal for the hint he threw out asking us to learn a lesson from the history of tenancy legislation in Bengal. I may state that Bombay took the lesson to heart long ago. The extension of the Zemindari settlement to other provinces was discussed for a long time among officials and it was ultimately decided to give a wide berth to that system of tenure. In fact, the origin of the Bengal Zemindari was peculiar and conditions in Bombay were entirely different. In very small parts of our presidency are tenures of the zemindari type, for instance, the khoti tenure and special legislation exists with regard to them. We have in Bombay small peasants who hold a few acres of land and the question of tenancy legislation for the protection of the tenants' interests does not arise. When our system of land tenure develops the abuses that characterise the system in Bengal, there would be time enough to think of tenancy legislation. One speaker here complained that tenancy legislation in Bengal has done nothing for agriculture. But is this not just like asking what factory legislation has done for factories and industries? Tenancy legislation has done exactly what it was intended to do. The principle under-

lying this matter is that as regards economic and social relations between individuals and classes, justice and equity should guide the policy and legislation. Society now attempts to protect the weak against the strong. From the purely economic point of view also it is desirable to do so. Legislation and government action are now-a-days actuated by the desire to be just and equitable—to protect the weak and the helpless. I think tenancy legislation should be considered from the large point of view just indicated.

With regard to Dr. Thomas' paper, I must say, Sir, that its subject matter is entirely irrelevant. While the subject prescribed was land tenures, he has dealt with land revenue assessment which is a different matter altogether. I should have liked to offer remarks on that very interesting subject and really wanted to write a paper on it myself. But I hold that economic taxation lies outside the purview of the subject specially selected for discussion at this Conference and therefore refrain from offering any further remarks.

Prof. K. T. Shah.

Prof. K. T. Shah said that all propertied persons were robbers, plunderers and parasites and that landlordism should be abolished. As he was utterly against landlordism, root and branch, he could not agree with the views of the previous speakers, who had spoken for or against the existing systems of land-tenures for their arguments were based upon the assumption of some form of land-tenure, and, therefore, the acceptance of the landlords as a necessary party, an assumption he could not accept. Prof. Shah emphasised the fact that the landlords as a class entirely ignored the rights of the tenants and looked upon them as no better than hewers of wood and drawers of water. He further urged that it is all very well for the landlords to oppress the tenants according to their sweet will and pleasure from their own position but if they would once come down to the position of the ryots they would be keenly alive to the inequality of the position of the landlords and tenants.

Professor R. K. Mukherjee and Dr. E. D. Lucas also participated in the discussion.

Mr. Sachin Sen.

The Hon'ble Education Minister and Prof. Radhakamal Mukherjee had many complaints against the landlords but my thesis is that the Bengal Tenancy Act, as conceived and as it

stands, transfers certain rights from landlords to ryots without contributing to the welfare of agriculture. The Tenancy Act does not insist on good cultivation, it does not ensure prompt realisation of rents, it enables an occupancy ryot to convert himself into a landlord or degenerate into a lower grade of ryot, it intensifies the conflict of the higher peasantry and lower peasantry, it helps the multiplication of tenures. The imperfect revenue policy of the Government, as embodied in the Tenancy Act, has not cared for the interests of lands; it has only helped the scramble for powers. The Tenancy Act is not a measure for the protection of lands, rather it has helped the disintegration of agriculture.

On a reading of the history of the Tenancy Legislation I find that the Bengal Tenancy Act was forced upon the country not from a sense of necessity, not from any demand from the people but at the instance of the Rent Commission. The landlords weie complaining of inadequate remedy for speedy recovery of rents and to meet the demands of landlords. The Rent Commission which was set up recommended a plan of comprehensive Tenancy reforms without providing for adequate procedure for recovery of rents.

Economists generally complain and the same complaint has been repeated by the Hon'ble Education Minister that the rental receipts in Bengal are nearly Rs. 18 crores whereas land revenue is Rs. 3 crores and that the balance is intercepted by the landlords. The fact is otherwise. There is a vast body of tenure holders who form the middle classes of Bengal and there are occupancy ryots enjoying rents from lower grades of ryots and the balance of Rs. 13 or 15 crores is distributed amongst the whole body. The rental receipts from occupancy ryots is something like Rs. 8 crores. Through the operation of the Tenancy Act the number of occupancy ryots are decreasing. In Bengal the peculiarity is that the ryots enjoying higher privileges pay low rent and the ryots enjoying less privileges pay higher rent. This is the gift of the Tenancy Act.

In my paper I have categorically stated the points which go to show that the Tenancy Act has run on a wrong direction and it does not contribute to the growth of agrarian prosperity. Therefore the discredit for the growth of unscientific land-tenures in Bengal should be shared by the Government. An ideal land tenure demands that the partners in the industry of agriculture should pull their full weight and the Tenancy Act does not help the partners to contribute to the welfare of agriculture. The Tenancy Act has tried to give protection without ensuring dis-

charge of responsibilities; at best it has attempted to screw better revenue under the "stamps" at the cost of the landlord and the tenant.

The Hon'ble Education Minister has laboured on the expression "proprietor" and has reminded us that an absolute ownership of lands is not possible according to English law. No one denies that. To know what law is, we shall look to the Regulations and to know what law shall be, we can traverse the connected literature. The point before us is not whether the landlords are "proprietors of the soil" or not, but my contention can easily be proved that the Tenancy Act has handicapped the landlords in pulling their full weight. That is a point of view which has been urged by the Agricultural Commission and deserves serious attention from our economists before they pass their verdict on the question.

THE PROBLEMS OF RURAL RECONSTRUCTION IN INDIA

Prof. Radhakamal Mukherjee.

One must have been impressed by the gigantic task of rural reconstruction which Prof. Kale has set forth to you and also by the social need, which economists have brought to bear upon the problems of rural reconstruction. If this is to be carried out successfully in this country, I would begin first by stressing on the important need of co-ordination of the different methods and agencies. Prof. Kale has advocated rightly at the beginning the different methods. A beginning also ought to be planned in co-ordination one with another. I am using phrases from the military side because illiteracy and indebtedness must be concentrated in a definite section and a vigorous compaign ought to be started against illiteracy and indebtedness. There is no doubt that the Co-operative Credit Society cannot at all develop without improved farming which requires high expenditure, or again that improved farming cannot be conducted at all without a desire for rural education.

Prof. P. J. Thomas.

The objective of rural uplift must be better living or a higher level of economic welfare, but better living can only come by better farming and better business. The produce from land must increase in quantity and improve in quality, and the produce must be marketed more profitably than now, so that a higher income may accrue to the agriculturist. Such income may not be adequate in many tracts, owing to one cause or other, and in most parts of the country some subsidiary industries are necessary for occupying the slack months and thus supplementing the scanty income from agriculture. This is especially necessary in Bengal, where it is said that the agriculturist is unoccupied for about six months in the year. Having increased the income, we must improve the mode of living; better houses, cleaner drinking water, more wholesome amusements—all these are necessary. In this way, dirt, disease and debt which are the bane of Indian village life must be kept under check.

The objective is clear, but ideas are not equally clear about the agency. At present we have the departments of Agriculture, Veterinary, Co-operation and Industries, functioning side by side. They are all carrying on work, but find it difficult to reach the

cultivator. Some of them are primarily meant for research and experiment, but if the results of research are to reach the people for whom they are intended, the Departments must have a much larger personnel and equipment than they now possess. But it is not possible to expand each of the departments into the village for carrying on propaganda for the adoption of the improvements suggested by them. In the United States of America, there are country agents doing this work. In England, Government has lately instituted regional colleges of agriculture with staffs of experts who can be consulted by the farmers. In India, the appointment of rural guides seems to be essential, but the guides must be carefully trained in the work of rural uplift. We have to-day a powerful Administrative Department, called Revenue, which has the best equipment for any kind of propaganda that must reach the masses. This Department is now saddled with many duties, some of which can easily be discharged otherwise. Hitherto this Department has been concerned with revenue collection and with law and order; in future these functions must be lightened and the principal duties of the department must be to provide for the economic welfare of the masses. This change may appear difficult, but it must be made if rural uplift is to progress rapidly.

Dr. E. D. Lucas.

By rural reconstruction I conceive that we must mean nothing less radical than the entire reconstruction of the mass of Punjab society itself—a far-reaching social revolution. When one thinks of how social institutions are hallowed both by time and the aura of religion is it not too gigantic a task to be undertaken and are we not in danger of playing with words and superficial and deceptive re-arrangements merely?

Conditions in the Punjab, however, seem ripe for drastic change. First, because the Punjab peasant has as soldier or emigrant had experience of a broader and vastly different world from his own. Second, because the prosperity of the Punjab agricultural classes has suddenly through no fault of theirs been turned into adversity and great discontent has arisen. And third because the three different and now clashing religions are going to be forced to mutual accommodation unless the Punjab wishes to commit suicide.

There are three changes in social attitudes of the masses which should be the aim of reformers. First, a fundamental change in the attitude towards women. The position of women

in the countryside is very unsatisfactory. In Ferozepore district things reached such a pitch that young girls were sold to old men as brides for payments running into thousands of rupees, the greater the disparity of age the higher the rate. While the education of boys has made some progress that of girls is only beginning. Women must be educated and respected before we can have a healthy and vigorous rural society.

Second, there must be a change towards religion—in fact religion as mere tradition and custom must be abandoned if it is to survive at all and be transmuted into an attitude of co-operation and respect for all men regardless of birth or previous religion or occupation.

And third there must arise an active spirit of community of service, a pride in one's home, one's village as a whole and one's neighbourhood and willingness to serve without material reward; in other words genuine local patriotism in the true and widest sense.

Next the type of education in villages needs drastic change. It should be based upon the principle of learning by doing and in each school both boys and girls should each have a plot of ground to cultivate and should learn the use of simple tools and the use of the hands and muscles. The school at Moga is an example of what is meant.

Third, the University at Lahore should introduce more courses in the social sciences and build up a competent school of Indian sociologists who could study and throw light upon social problems as we actually find them.

In closing, one must say that the first essential for the social reformer is belief that the material he deals with is worth reforming and certainly here with the knowledge I have of the Punjab peasantry I can say without hesitation that it is as fine a potential material as is to be found anywhere. The vision of a happy, prosperous and virtuous peasantry in the Punjab is not an idle dream—granted faith and strenuous work.

CLOSING REMARKS OF MR. MANOHAR LAL, M.A. (CANTAB.), BAR-AT-LAW, PRESIDENT OF THE INDIAN ECONOMIC CONFERENCE (NINETEENTH SESSION)

Ladies and gentlemen: it is my duty to express my gratitude at the very kind way in which the vote of thanks has been moved by Prof. Kale and seconded by Prof. Vakil and received by you. I am not so vain as to imagine that the success of this conference is in any measure due to any virtue of mine. The success in the conduct of the conference is due to the two arms provided for me—our two Secretaries. Mr. Banerjee who is not only an efficient and willing Secretary but carries with him a charming smile in whatever he undertakes, even the reading of his historical papers. Dr. Jain on my left is, as you know, charm and efficiency itself who though he is a fairly prolific writer has, so far as this Conference is concerned, imposed upon himself a complete self-denying ordinance. With two such secretaries, success so far as the Chair is concerned was a foregone conclusion. The success of the Conference itself depended not on the Chairman but on your delegates, and the learning and the power of debate which they have brought to bear on the subjects under discussion and the way in which while full of knowledge they kept within the time available. All this has allowed our proceedings to run smoothly.

We had in the course of our deliberations of the Conference high-class papers from young economists and sober and carefully made reflections by our mere senior colleagues. I may be permitted to refer to some of the names that obviously stand out. I am not attempting to arrange them in any precedence where excellence was so evenly distributed. We had excellent papers from Prof. P. J. Thomas, Dr. H. L. Dey, Mr. Gyan Chand and Dr. Kaul. We had a most interesting discussion on Land Tenures introduced by one who is not a professional economist, Mr. Sachin Sen. We had the advantage of listening to Mr. Banerjee. We heard Mr. Rahman. We heard young Mr. Madan from Lahore University. We had the advantage of listening to Prof. Niyogi and of course to Prof. Radhakamal Mukherjee with his eloquence and striking earnestness. We had the wise words of Prof. Kale, Prof. Vakil and Dr. Lucas, our latest associate who was kind enough to speak to us with his mature appeal to the best in us. The Conference that is composed of such ability and is representative of so much academic life

in India to which people from practically every centre of learning have come, where on the last day, at any rate, so many beaming ladies have also come, could not but succeed. (Loud cheers).

We can justly feel that we have succeeded in our efforts in adding one more year of successful work. I should be failing in my duty if I do not say that no small part of the success of the Conference is due to the kind manner in which the University of Dacca has associated itself with our work. (Loud applause). And here I wish to convey our particular thanks to your Vice-Chancellor who not only did us the courtesy of associating himself officially with the opening of the Conference but also extended to us his very generous private hospitality. As for Mr. Banerjee and Mr. Ayyar I am not going to mention them again. They may be spoiled. There are others with whom unfortunately we were not able to acquire intimate acquaintance. Many teachers of the University have taken a kindly interest in us. And then the students must not be forgotten. I have known the Dacca students for a number of years. The contribution of the Dacca students to our success has been abundant, in fact the most significant. I think it could not have been possible for many of us to generate the eloquence but for the responsive audience they furnished.

We are genuinely thankful to the students. We must not, of course, forget the volunteers in any event. I have attended many conferences and similar bodies. I think I am on safe ground in saying that never have the volunteers looked after us with more care, devotion and a desire to serve as they have done here at Dacca. They must have suffered many privations in looking after our comforts and if the spirit of service they have displayed could find more widespread expression in the country, the face of India might be changed and some of the problems of uplift solved.

The President closed with some observations on the agency for rural uplift and emphasised the need of the Government being ready with schemes of individual advance.

INDIAN ECONOMIC ASSOCIATION NINETEENTH CONFERENCE, DACCA UNIVERSITY, JANUARY 1936

The Annual General Meeting of the Indian Economic Association was held in the Dacca University Buildings on the 4th January, 1936 at 8-30 A.M.

Present:

Manohar Lal, Esq., M.A., M.L.C., Bar-at-Law (President)

Prof. P. Banerjee.	Prof. M. K. Muniswami.
Prof. Gyan Chand.	Prof. N. S. Narasimha Aiyangar.
Prof. S. V. Ayyar.	Prof. H. L. Dey.
Prof. P. J. Thomas.	Prof. B. K. Madan.
Prof. C. N. Vakil.	Prof. B. V. Narayanaswamy.
Prof. V. G. Kale.	Prof. D. G. Karve.
Prof. L. G. Natesan.	Prof. C. B. Joshi.
Prof. P. Datta.	Rev. Dr. E. D. Lucas.
Prof. J. P. Niyogi.	Prof. B. N. Ganguly.
Prof. P. S. Lokanathan.	Prof. B. N. Kaul.
Mr. Sachin Sen.	Prof. H. Rahman.
Prof. R. K. Mukherjee.	Prof. D. N. Banerjee.
Ch. Sitarama Sastry.	Prof. L. C. Jain.

1. The minutes of the last Annual General Meeting held at Patna were confirmed.

2. The report of the Hony. Secretary and Treasurer and the audited statement of accounts for the year ending 31st May, 1935 were considered and approved.

3. The invitation of the University of Agra for holding the 20th Economic Conference under their auspices was gratefully accepted. It was agreed that the Conference should be held in the last week of December 1936, or the first week of January 1937. The exact dates to be settled by the Hony. Local Secretary and to be announced later.

4. The following subjects were selected for discussion at the next Conference:—

(*a*) Indian Income Tax System.
(*b*) Transport (Road and Rail Competition, Coastal and River Navigation.)
(*c*) Tariff Policy in India.

(*d*) Measurement of National Income in India.
(*e*) A current topic to be decided later by the Executive Committee.

5. The following office-bearers were unanimously elected for the ensuing year:—

President	Dr. J. Matthai.
Hon. Secretary and Treasurer	Dr. L. C. Jain.
Hon. Local Secretary.	To be nominated by the Vice-Chancellor, University of Agra.

Members of the Executive Committee:

1. Manohar Lal, Esq., M.A., Bar-at-Law, Lahore.
2. Prof. V. G. Kale, Poona.
3. Prof. R. K. Mukerjee, Lucknow University.
4. Prof. C. N. Vakil, Bombay University.
5. Prof. P. J. Thomas, Madras University.
6. Prof. J. P. Niyogi, Calcutta University.
7. Dr. Gyan Chand, Patna University.
8. Dr. B. N. Kaul, Aligarh University.
9. Prof. H. Rahman, Osmania University, Hyderabad.
10. Dr. B. V. Narayanswami Naidu, Annamalai University.
11. Prof. D. N. Banerjee, Dacca University.
12. Prof. G. D. Karwal, Allahabad University.

6. (*a*) It was resolved that the Hony. Auditor, Lt. P. S. Sodhbans be thanked for his kindness in auditing the accounts for the year 1934-35.

(*b*) Lt. P. S. Sodhbans was reappointed Hony. Auditor for the year 1935-36.

7. The following gentlemen were elected to represent the Association on the Board of the Journal:—

Prof. V. G. Kale.
Prof. C. N. Vakil.
Prof. P. J. Thomas.
Prof. J. P. Niyogi.

8. The following resolution of the Executive Committee was noted; " That it is premature to organise a Social Sciences Congress, but that in the subjects selected for discussion for the Economic Conference, a subject bearing on allied social sciences may be included."

9. The Secretary informed the meeting that action was being taken on Prof. Vakil's suggestion regarding the extension of the activities of the Association by the formation of Local Study Centres, and the Executive Committee would report on the matter to the general meeting next year.

10. The President informed the meeting that Dr. Radha Kamal Mukerjee has organised a Population Conference to be held at Lucknow towards the end of January. Questions with regard to the scientific investigation of the Population problems will be generally considered there.

11. The following proposal of Professor S. V. Ayyar was considered:—

> "That any person who has been a member for ten years may on payment of 100 rupees be entitled to become a life-member exempt from all further contribution."

It was pointed out that neither the present subscription rates for the Journal payable to the University of Allahabad, nor the present strength of membership of the Association, justified the acceptance of the resolution. The Secretary, however, explained that the Executive Committee was generally in favour of the principle of the resolution, and wished that efforts should be made with a view to enabling the adoption of the resolution as early as possible. In view of this statement, Professor Ayyar withdrew his resolution.

12. The Secretary reported to the meeting that the Executive Committee had authorised the President and the Honorary Secretary to sign the agreement regarding the Journal between the Association and the University of Allahabad, on behalf of the Association. The Committee had also decided that the net annual profits of the Journal should continue to be divided half and half between the Association and the Departments of Commerce and Economics, University of Allahabad.

The meeting terminated with a vote of thanks to the Dacca University and to the President.

(Sd.) MANOHAR LAL — *President*

L. C. JAIN — *Hon. Secretary and Treasurer*

INDIAN ECONOMIC ASSOCIATION

Report for the year ending 31st May, 1935.

The number of members rose from 145 on the 31st May, 1934 to 192 on the 31st May, 1935. This is the largest number yet reached, but the Association can not be content with the membership of 192 or 200.

The financial position of the Association also showed improvement. From Rs. 2,433. 0as. 2p., on the 1st. June, 1934, the cash balance increased to Rs. 2,743. 8as. 7p., on the 31st May, 1935. This includes Rs. 292. 4as. 8p. on account of the share of the Association in the profits of the Journal, but does not include interest on the fixed and saving bank deposits which fell due and was realised on the 24th June, 1935, and which therefore, will be accounted for next year. The payment by the Association on account of the Conference Number of the Journal for pages exceeding 200 was Rs. 637 6as. 3p. as compared with Rs. 401 13as. 0p. last year. But for the Conference Number the Patna Economic Conference made a generous donation of Rs. 225, while a sum of Rs. 167 8as. 0p., was received from authors whose papers exceeded 10 pages. The audited statement of accounts is attached hereto.

The new agreement regarding the Journal between the Association and the University of Allahabad was made for a period of 5 years, according to which the Journal is owned jointly by the Association and the University, and there is a joint-reserve fund of Rs. 1,731. The net annual profits shall be added to this fund or divided half and half between the Association and the University as they may decide.

I am greatly indebted to the President and to Professor Vakil for their valuable guidance in all matters.

Lahore: December 19, 1935.

L. C. JAIN
Hony. Secretary.

INDIAN ECONOMIC ASSOCIATION.

Receipts and Payments Account for the year ending 31st May, 1935.

RECEIPTS.

	Rs. a. p.	Rs. a. p.	Rs. a. p.
To Opening Balances:			
(*a*) Fixed Deposit		1,047 7 0	
(*b*) Bank Balance as per Pass Book ..	1,840 8 5		
Due to Secretary 17-11-9 *Less* expenses of Journal 437-3-6 ..	454 15 3		
		1,385 9 2	
			2,433 0 2
" Interest on Fixed Deposit (1934) ..		28 13 0	
" " " Current Account		8 13 0	
" " " Saving Bank Account ..		15 10 0	
			53 4 0
" Subscription from Members:			
191 Members @ Rs. 12 each ..		2,292 0 0	
Less received in advance in last year ..		138 0 0	
			2,154 0 0
" Advance Subscription: 3 Members @ Rs. 12 each		....	36 0 0
" Proceeds of the 18th Indian Economic Conference		....	225 0 0
" Share of Profits from the Journal ..		...	292 4 8
" Author's Contribution to the Conference Number of the Journal		....	167 8 0
" Miscellaneous Receipts (Journal's Advertisement)		....	7 8 0
TOTAL ..		...	5,368 8 10

PAYMENTS.

	Rs. a. p.	Rs. a. p.
By Department of Economics, University of Allahabad for 192 Members @ Rs. 9 each including one Life Member, being contribution to Journal	..	1,728 0 0
" Cost of Journal (Conference Number) ..	....	637 6 3
" Expenditure on 22 refused Journals ..	....	6 14 0
" Clerical Assistance	....	112 0 0
" Printing and Stationery	....	54 2 3
" Postage	....	62 0 9
" Transport Charges on Journals from Bombay to Allahabad	....	16 1 0
" Miscellaneous Expenses	....	8 8 0
" Cash at Bank and in hand:		
(*a*) Fixed Deposit with Bombay and Provincial Cooperative Bank Ltd., Bombay	1,076 3 0	
(*b*) Saving Bank Account with Punjab National Bank Ltd., Lahore ..	2,015 10 0	
(*c*) Current Account with Punjab National Bank Ltd., Lahore ..	529 0 11	
(*d*) Cash with Secretary	14 3 3	
	3,635 1 2	
Less due to Department of Economics, Allahabad University ..	891 8 7	
		2,743 8 7
TOTAL ..	....	5,368 8 10

AUDITOR'S REPORT.

Audited and found correct. Actual cash balances in hand are Rs. 3,635-1-2 out of which Rs. 891-8-7 are payable to the Department of Economics towards the cost of Journal. Interest on fixed deposit for 1934-35 amounting to Rs. 26-14-0 falling due and realised on 24th June, 1935, has not been taken into account and similarly the interest on Saving Bank account credited on 24th June, 1935.

P. S. SODHBANS, F.L.A.A. (London), R. A.,
Registered Accountant,
Hony. Auditor.

Lahore, dated 18th December, 1935.

L. C. JAIN,
Hony. Secretary.

INDIAN ECONOMIC ASSOCIATION

Notices to Members

Annual Subscriptions, 1936-37.

Members are reminded that Annual Subscriptions (Rs. 12 or Rs. 12 4as. 0p. to cover Bank's commission, if a cheque is sent) are due and payable on the 1st June each year and should be remitted to the Hony. Secretary, Professor L. C. Jain, University, Lahore.

List of Members, 1936.

It is proposed to issue a complete list of Members of the Association correct as on 1st June 1936. Members are requested to notify the Secretary without delay of any change in their address, giving their full names and their last address.

Applications for Membership.

Applications for Membership should be addressed by letter to the Secretary, Indian Economic Association, University, Lahore. The Annual contribution by members, including annual subscription to the Indian Journal of Economics, is Rs. 12 only. Cheques should be for Rs. 12 4as. 0p., to cover Bank's commission and made payable to Hony. Secretary, Indian Economic Association.

INDIAN ECONOMIC CONFERENCE

The Twentieth Indian Economic Conference will be held at Agra under the auspices of Agra University at the end of December 1936, under the Presidentship of Dr. J. Mathai, D.Sc., Prof. H. L. Puxley, St. John's College, Agra, has been appointed Local Secretary. The following are the subjects for discussion:—

1. Indian Income Tax System.
2. Transport (Road and Rail Competition, Coastal and River Navigation).
3. Tariff Policy in India.
4. Measurement of National Income in India.
5. A current topic to be decided later by the Executive Committee.

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